

TRANSITION OF THE HOUSING SECTOR IN THE EAST-CENTRAL EUROPEAN COUNTRIES

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Transition of the housing sector in the East Central European countries¹

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In ordinary times, the housing sector plays an important role in the economic and social affairs of nations, accounting for between 10 and 20 percent of the total economic activity in most countries and 20 to 50 percent of reproducible wealth, and it has important linkages to practically every macroeconomic aggregate -- GNP; interest, savings, and inflation rates; levels of employment and unemployment, wage rates, and even the balance of payments. These linkages, through real, financial, and fiscal circuits to the rest of the economy, are increasingly being understood and documented -- as are the costs of policy failures and the benefits of policy successes. In the ongoing and dramatic social, political, and economic transition being experienced by the countries of Eastern Europe, the housing sector has an even more critical role to play both because of the importance of the sector itself and because of its importance in supporting broad economic and social goals to which its performance is linked. Past policies have created a situation in which the housing sector -- due to the direct political intervention -- has performed very differently from market-type housing sectors: the quantitative and qualitative results achieved have produced a strong legacy of distortions and costly impediments which must be overcome if the sector is to achieve the potential of which it is capable. The new governments, elected around 1990, started the work to restructure housing policy, under the pressures from the political and macroeconomic situation. Within a very short period of time the biggest wealth transfer programs in history have been carried out. The role of the central state has been decreased, housing policies took more and more market orientation. It was clear that such big changes can not be carried out without conflicts and failures. Moreover, average citizens have to face dramatic decline in housing production, huge increase in the ongoing housing expenditures, much less social protection, than before. It is time to investigate, based on the first systematic data collection in the region since the change of the political system, what are the achievements and the problems of the restructuring of the housing policy of the transitional countries, how should the worries and complaints of the different social strata be evaluated.

¹ This paper is the shorter version of a bigger Regional Monograph on "The Changing Housing Sector in the East Central European Transitional Countries. The processes of restructuring and the options for the future." The Regional Monograph focuses on the evaluation of quantitative data ("Regional Housing Indicators in the Transitional Countries of Central and Eastern Europe") and qualitative descriptions of 12 Eastern-Central European countries, which were collected by the Metropolitan Research Institute, Budapest. The whole project has been funded by USAID, with additional help from ECE and UNCHS/HABITAT.

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This paper is intended: (1) to establish the basis for a common understanding of the current state of the housing sector in the Eastern European Region, (2) to set out the goals and objectives that should guide the formulation of policy and institutional reforms within the sector, and (3) to establish priorities for actions to be taken over the short-, medium-, and longer-term by national and local governments and by international agencies in support of governments. The overall framework both for evaluating the current state of the sector in the region and for establishing the principles and priorities for reform is that suggested by the Global Shelter Strategy for the Year 2000, which calls upon governments and international organizations to put in place *enabling strategies* -- those that facilitate the activities of all of the key stakeholders in the sector, while providing an essential element of the social safety net. The statements and suggestions in this paper are based on the quantitative and qualitative information collected from 12 countries of the region and on discussions with experts of these countries.

1. UNDERSTANDING THE EASTERN EUROPEAN HOUSING SECTOR

The historical evolution of the Eastern European housing sector has been determined largely by the role of the sector in the socialist orthodoxy of the region -- one which designated housing as a "social" rather than an "economic" sector, but a sector which nevertheless had a significant claim on resources because of the standing of housing as a right to which all citizens were entitled. In its extreme form, as exemplified by the former Soviet Union, private property rights to housing were abolished, and the state controlled the production, distribution, operation, and pricing of housing. Decisions concerning each of these aspects of housing were made on the basis of planning decisions which bore little or no relationship to those which might apply in a market economy³. For example, areas in which jobs were growing were not necessarily those where incremental housing investments were made; characteristics of dwellings were limited to the few available from the large-scale panel construction techniques favored by socialist planners; the location of housing estates was determined with no reference to the scarcity value of land or even proximity to places of employment; financing terms and conditions bore no relationship to the "market" for financial services; rents were adjusted infrequently or never, and were unrelated to costs of either maintenance or operations; subsidies were determined with little reference to either "need" or ability to pay. Housing delivery systems in countries other than the Soviet Union often embodied some or all of these features, though varying degrees of "the market" were allowed to show through in many. Bulgaria, Hungary, and even Poland, for example, have permitted, and even supported, ownership of private property in urban areas for many years, although rights have been highly circumscribed.

Many observers of the Eastern European housing model have characterized it as a paradox -- a sector of both subsidy (hence, favored) and scarcity (hence, unfavored). Subsidies to the housing sector in many Eastern European countries were often on the order of from 3-5 percent of GNP during the 1970s and 1980s, and comprised, next to food subsidies, the most important consumer subsidy. Such subsidies have been generally viewed as unsustainable in the current economic environment and, indeed, contributory to a host of macroeconomic ills such as a fiscal imbalance at both the local and national level which exerts an unwarranted upward pressure on interest rates and inflation. At the same time, however, there has been considerable evidence of housing shortages -- long waiting lists for state and cooperative housing, pervasive excesses of households in relation to the

³ For a more detailed discussion of the East European Housing Model see Hegedüs and Tosics, 1992; for the disintegration of this model see Hegedüs and Tosics (forthcoming).

stock of dwellings, and high black market prices for housing for both rental and purchase.

Recent declines in housing production and investment to as little as 30 percent of peak output in some countries have heightened the sense of shortage and the need to redress it by measures to increase, perhaps dramatically, both output and investment in the sector. Many observers have advocated policies to increase sectoral output which would help to address the apparent continuing shortages but which, however, following the same discredited internal logic of the Eastern European model, require greater subsidies. This represents a return to the safety of the familiar paradox rather than a movement toward the unfamiliar new paradigm of a market-based system of housing production, distribution, and pricing. Others have accepted the basic diagnosis of "subsidy and shortage" but have advocated, by contrast, a rapid "move to market" based on an often uncritical adoption of many of the policies and institutional structures of housing delivery systems which have evolved over decades in the economies of the West.

In contrast to those advocating either a return to policies heavily dependent on the "old model" or on the "market model", it is the contention of this paper that a different and unique course should be taken by the countries of Eastern Europe -- one which is derived from a different diagnosis of the key problems of the sector than is often proposed and one which, as a result calls for a different prescription in the form of policies and institutional reforms. The diagnosis contained here is derived from an examination of data on *Housing Indicators* which have been collected as a continuation of a process begun in 1990 by the United Nations Centre for Human Settlements and the World Bank, with support also from the United States Agency for International Development (USAID), known as the *Housing Indicators Program*. The Program was begun in 1990 to provide an analytical framework for evaluating the performance of the housing sector as a whole, and providing data on a wide range of indicators for 53 countries on every continent and at every level of economic development.

Data collected in the first phase of the Housing Indicators Program contain information relevant to assessing housing sector performance from the standpoint of all of the major *stakeholders* in the sector, in particular, those who occupy it -- consumers, those who produce and maintain it -- producers, those who finance it -- financiers, and those who tax, subsidize, and regulate it, and who are charged with responsibilities to ensure that housing policies are supportive of social and economic objectives beyond those of the housing sector -- local and national governments.

Data on indicators relevant to each of these groups can be used to establish a range of housing outcomes which appear to be "normal" for economies at different levels of economic development, for cities of different sizes, etc. By comparing outcomes for a variety of indicators covering the interests of all of the relevant stakeholder groups, it is possible to get an idea of when a housing sector is performing well or badly, sustainably or unsustainably. Information on discrepancies from the behavioral norms indicated by the housing indicators can then be used to call attention to potential problems and also to identify prescriptive measures to bring about a movement toward "normality." For example, it is well known that housing prices in Eastern Europe are greatly distorted from "market prices" -- with rents low relative to household incomes and selling prices high relative to incomes. Comparisons of values of such indicators to those of countries at similar levels of economic development can suggest what values might be expected in the long run as Eastern European countries undertake actions to liberalize housing delivery systems, and can also be used to establish "targets" by which the effects of policy changes can be monitored and evaluated.

The Regional Monograph upon which this statement is based contains an evaluation of data and qualitative descriptions of the housing sector, policies, and institutions collected for 12 Eastern European countries for 1990 and 1994⁴, and included data at both the national and city levels for many variables. In the first part of this paper data for key indicators within the region were compared to those of countries and cities in Western Europe⁵, and countries and cities with similar levels of economic development throughout the world⁶. In the second part of the paper, the most important data for the East Central European region are also presented according to three subregions, based on geographical and economic grouping of the countries.

1. THE PERFORMANCE OF THE EAST EUROPEAN HOUSING MODEL AT THE END OF THE 1980S

Comparisons of key indicators at the beginning of the transition period suggest that the Eastern European model performs surprisingly well in some respects and badly in others. Such comparisons present in a number of important respects a very different picture of the key problems confronting the sector in most countries of the region, and, as a result, indicate a somewhat different mix of prescriptions for policy reform and institutional development. Among the key areas in which comparisons have been made are the following⁷ (the most important comparative data are summarized in Table 1):

Housing tenure and property rights -- The clear ideological preference for rental housing in the formerly centrally-planned economies of Eastern Europe is strongly reflected in lower rates of private ownership of dwellings there. Eastern European cities averaged only 28 percent privately owned dwellings in 1990, compared to 62 percent among comparators and 65 percent among Western European cities. Country-wide data indicate, however, that private ownership of dwellings was far more common in secondary cities and rural areas in Eastern Europe than was the case in capital cities; Eastern European countries averaged about 58 percent private owner occupied housing in 1990. As is discussed below, however, there have been dramatic changes in private ownership during the transition as a result of programs of restitution and privatization.

⁴ This work has been funded by USAID (with additional financial contribution from the ECE and UNCHS/HABITAT), coordinated and organized by MRI, Budapest. The countries covered include, in Central Europe, the Czech Republic, Hungary, Poland, Slovakia, and Slovenia; in Southern Europe, Albania, Bulgaria, Croatia, and Romania; and the Baltic states of Estonia, Latvia, and Lithuania. In some cases, these data were augmented, for 1990, by data on Russia.

⁵ Countries included, in increasing order of 1990 GNP per capita: Spain, United Kingdom, Netherlands, Austria, France, Germany, Sweden, Norway, and Finland.

⁶ Comparator countries include, in increasing order of 1990 GNP per capita: Jordan, Colombia, Thailand, Tunisia, Jamaica, Turkey, Chile, Algeria, Malaysia, Mexico, South Africa, Venezuela, Brazil, Korea, and Greece.

⁷ Unless otherwise noted, comparisons are for cities rather than for countries as a whole. Cities represented in the Eastern European group are always capital cities; cities for Western Europe are capital cities except for Munich, Germany. Comparator cities are also capital cities with the exception of Istanbul, Turkey; Monterrey, Mexico; and Johannesburg, South Africa.

Housing prices and affordability -- Relative to either income-based comparators or Western Europe, rents in 1990 were far lower than "normal" -- an average of 5.7 percent of income in Eastern Europe, 20.5 percent among comparators, and 15.9 percent in Western Europe. These differences reflect the pervasiveness of state control over rents in Eastern Europe in contrast to, in general, market determination of rents for each group of comparators. By contrast, purchase prices of median dwelling units relative to income were far higher in Eastern Europe than in either Western Europe or comparator countries -- with a median value among Eastern European countries of 9.3 times annual income in Eastern European cities, 4.2 times among comparators, and 4.7 times in Western European countries. Higher house price-to-income ratios in Eastern Europe reflected the relative scarcity of owner-occupied housing in cities, where transactions prices actually observed applied to a relatively "thin market", with prices established by a comparatively small number of generally better-off households willing to pay large premia for suitable housing which was available for purchase. Low rents relative to incomes in Eastern Europe, especially when compared to the high prices of purchasing on the open market (insofar as it existed) account for much of the phenomenon of queuing for subsidized rental housing which produced the long waiting lists and apparent shortages of the pre-transition period.

Table 1 Different measures of the housing situation around 1990 in the cities of three groups of countries

Indicator	Country grouping		
	E a s t e r n Europe	I n c o m e comparators	W e s t e r n Europe
Per capita GNP (\$/year)	2,552	2,431	19,792
Share of owner-occupied housing (%)	28 % (cities) 58 % (countries)	62 %	65 %
Rent to income (%)	5.7	20.5	15.9
House price (median dwelling) to income	9.3	4.2	4.7
Floor area per person (m ²)	19.6	14.0	32.3
Households per dwelling unit	1.12	1.16	1.02
Persons per room	1.28	1.74	0.67
Dwelling units per 1000 people	366	207	481
Housing production: dwellings produced per 1000 people	4.5	7.4	6.1

Housing investment as a share of GNP (%)	3.7 %	6.3 %	3.8 %
Rates of household formation	1.4 %	4.6 %	0.9 %
Annual expansion of the housing stock	2.0 %	4.1 %	1.3 %
Housing credit portfolio ⁸	9.7 %	15.6 %	26.2 %

Unweighted city data from around 1990, partly from the Extensive Housing Survey (World Bank), partly from the East Central European Regional Housing Indicators Database (Metropolitan Research Institute, 1996).

⁸ Defined as the ratio of the value of total housing loans to the value of all outstanding loans in both commercial and government financial institutions.

Housing quality and quantity -- A number of different measures can be used to compare housing quality and quantity from place to place. Measures of "crowding" sometimes used to assess apparent housing shortages include floor area per person, households per dwelling unit, persons per room, and dwelling units per 1000 people. Each conveys somewhat different information, so it is useful to examine several such measures to accurately assess the degree of crowding. In the case of each such measure, housing conditions of Eastern European cities are strikingly good relative to those of comparators with similar incomes, and are, indeed, often relatively close to those of Western European cities despite having per capita incomes that are only one-eighth as high those in Western Europe (a mean of US\$2552 for Eastern European countries in 1990, compared to US\$19,792 in Western European countries in the same year)⁹. Every key indicator of crowding for the three groups of countries suggests that relative to their income levels, Eastern European cities have housing less crowding than do countries with similar income levels -- with 40 percent more floor area per person and 77 percent greater dwellings per 1000 people than in comparators. Comparisons at the country rather than the city level would produce similar results.

Similarly, the quality of the housing stock in Eastern Europe appears to be much better on average than that in countries with similar incomes. Median dwelling units throughout the region are estimated to be served by running water, sewerage, paved roads, electricity, and, generally, central heating -- unlike median dwellings in many of the capital cities of income comparators. The only major exceptions are for Albania, Bulgaria, Romania and Lithuania which with the low level of their flats serviced with piped water and containing bathroom are well below the average level of service for the region.

These comparisons suggest that the housing stock in Eastern European cities is, on average, far better than what might be expected on the basis of their income levels, and that, indeed, the issue of housing shortage which is frequently alleged within the region is likely to be substantiated only on the basis of either inappropriate comparisons to Western Europe, with incomes eight times as high, or expectations which have been conditioned by decades of low and distorted prices.

On the other hand, there is ample evidence that, despite high overall levels of housing quality and quantity, there are significant problems in the distribution of housing. In particular, relative to market-oriented economies, there is far less correspondence between household income levels and housing quality/quantity outcomes; and many more large households occupy small dwellings and small families large dwellings than is the case in market economies. The level of upkeep and maintenance of the existing multi-family housing stock is far below of that of market economies, there is a significant "deferred maintenance", relative to the economically necessary normal maintenance cycles¹⁰. Relative to market economies, there is also a far more

⁹ Per capita GNP among income comparators averages US\$2431 in 1990).

¹⁰ There are neither commonly accepted measures nor reliable data on the problem of "deferred maintenance". To highlight the magnitude of the problem on one concrete example: in one of the inner city districts of Budapest there are buildings built 80-100 years ago and never really renovated since then. The current market value of 1 sq.m. flat in the run-down buildings is around 220-250 USD. The renovation of the building, i.e. the solving of the deferred maintenance problem (without renovating the flats inside) would cost approximately 220 USD/sq.m. As a result the non-renovated flats in the renovated buildings would have a market value of 360-400 USD. It can be seen that the costs of renovation necessary to handle the problem of deferred maintenance are higher than the value-increase of the flats.

limited range of choice of available housing types, styles, and quality levels. Moreover, the spatial distribution of housing in Eastern European cities often exhibits a pattern heavily influenced by huge prefabricated housing estates in the outer zones of the cities, frequently resulting in more dispersed housing than that found in market economies, and resulting in higher costs of commuting to and from work, higher infrastructure costs, and higher energy costs. The resulting disequilibria between household preferences and housing outcomes creates much of what appears to be high "excess demand" for housing which is reflected in high sales prices of housing relative to typical incomes, large black market premia for suitably located rental housing, and long waiting lists for state subsidized housing. These disequilibria impose costs not only on those whose preferences cannot be satisfied by the distributional system of the Eastern European housing model, but spill over into other areas of the economy as well, affecting negatively, in particular, labor markets -- increasing regional wage differentials, distorting incentives for employers, and increasing levels of unemployment.

Production and investment -- Housing production is frequently measured in terms of the number of dwellings produced per 1000 people. In 1990, Eastern European cities had housing production averaging 4.5 dwellings per 1000 people (ranging from a low of 1.9 in Warsaw to 6.4 in Vilnius), compared to 7.4 for income comparators and 6.1 for Western Europe, suggesting that the region had, in relative terms, a less vigorous housing production sector than either group of comparators.¹¹ Housing investment as a share of GDP averaged 3.7 percent among Eastern European countries in 1990, lower than the share of gross *city product* devoted to housing investment among income comparator cities, 6.3 percent, and Western European cities, 3.8 percent in 1990. Such comparisons are, however, misleading in that they do not take account of the rate of household formation which, for the most part, drives the demand for new construction. An alternative way to evaluate the adequacy of housing production is to compare the rate at which the stock of dwellings is changing to the rate of household formation. Rates of household formation in Eastern Europe are low and falling, with the average capital city in the region experiencing annual increases of 1.4 percent of households between 1980 and 1990. During the same period, household formation rates in the cities of income comparators were 4.6 percent, and in Western European cities were 0.9 percent annually. Over the same period the annual rates at which the stock of dwelling units expanded in the three regions were as follows: Eastern Europe -- 2.0 percent; income comparators -- 4.1 percent; Western Europe -- 1.3 percent. Thus in both Eastern and Western Europe, the stock of dwellings expanded more rapidly during the decade of the 1980s than did the number of households, while in many comparator cities, which were on average experiencing far higher rates of demographic change, supply failed to keep up with demand. These comparisons reinforce the conclusions regarding the comparative performance of Eastern European countries relative to those of countries with similar incomes. In general, not only was the housing stock in Eastern European countries of better quality than that of its income comparators, but housing production was at least as capable of keeping up with new household formation in the former group as in the latter.

Finance -- Because of the different mechanisms used to finance the purchase of housing in planned and market economies, it is difficult to compare the adequacy of housing finance in the two types of economies. Finance in both systems is, however, provided by a combination of downpayments or initial fees paid by households,

Additionally, it is clear that tenants currently occupying these flats can not be forced to pay rents which would cover renovation costs.

¹¹ Production at the national level averaged 3.8 dwellings per 1000 people in 1990, ranging from a low of 2.1 in Poland to 5.6 in Lithuania.

subsidies provided by the government (either initially or over a period of time), and loans, made by banks, other financial institutions, or through informal sources. One indicator, however, of the degree to which housing finance plays a role in the overall financial system may be called the *Housing Credit Portfolio* -- the share of the consolidated assets of a country's banking system which are in the form of loans for housing. In market based economies, the housing credit portfolio has been found to increase systematically with the level of economic development; in the poor countries of Africa and Asia, for example, it is usual for housing loans to comprise no more than about 5 percent of the assets of the banking system, with most lending devoted to short-term lending often to finance imports, exports, and other commercial activities. Among the countries of Western Europe, the housing credit portfolio averages 26.2 percent (ranging from a low of 16.4 percent in the Netherlands to a high of 37.4 percent in the United Kingdom), and among the income comparators the indicator averages 15.6 percent (from a low of 0 percent in Algeria, which has a financial system similar to that of Eastern European countries, to a high of 39 percent in South Africa). Among the Eastern European countries which reported a value for this indicator (8 countries including Russia), the indicator ranged in 1990 from 0 percent in Russia to 25.4 percent in Slovenia, with an average of 9.7 percent -- well below the levels typical of market economies. This is a reflection of both the different approach to finance taken in market and planned economies and a difference in the role of rental and privately owned housing. With changes both in the financing mechanism and in property rights (especially as concerns the role of private owner-occupied housing), major changes in the role of housing finance within the financial system are to be anticipated.

Subsidies -- Subsidies for housing have been a major feature of every Eastern European country. Such subsidies have been granted in many different forms, but almost always comprise a significant share of government transfers. State rental housing and, in some countries, cooperative housing entailed subsidies for both initial capital costs and continuing costs of operations and maintenance. Capital subsidies took the form of one-time writedowns of construction costs with purchasers obligated to pay the remainder through initial downpayments and loans, generally at heavily subsidized interest rates. Other subsidies occurred in the form of rents which failed to cover operating costs. At the end of the 1980s it was estimated that rents covered only about 20-30 percent of operating costs in the countries of the region. Subsidized utility costs have also been a feature of the region, with energy costs for heating and electricity well below world prices in 1990. Notwithstanding the magnitude and pervasiveness of subsidies, they appear often not to have been well-targeted to low-income groups within the region. While data on targeting are difficult to obtain and contain a good deal of "noise", it appears in 1990, that smaller shares of subsidies accrued to low income groups in Eastern Europe than was the case in either income comparator countries or in Western Europe¹². It is clear that more and better data are necessary on subsidy sizes and distribution as a prerequisite for subsidy reform.

Policies and institutional arrangements -- Housing sector performance in Eastern Europe has been heavily influenced by the policy regime and institutions within the region. Housing finance was available principally from state-operated banks whose operating principles bore little or no relation to those of Western, market-oriented banks. Property rights, particularly with regard to ownership and exchange of private property were highly circumscribed. Subsidies were large, often poorly targeted, and highly distorting in terms of the incentives they

¹² The median percentages of subsidies estimated to be reaching households below median income was 22 % in Eastern Europe (only two countries: Poland and Hungary), 38 % in income comparators (11 countries) and 46 % in Western Europe (8 countries).

conveyed to the occupants of housing, producers, and financial institutions. Policies regarding the type and location of infrastructure (e.g., district heating) were made with little reference to world prices of energy or other inputs. The planning and regulatory framework for housing paid little attention to factors such as the cost of scarce inputs such as land. The building industry was characterized by state monopolies of a scale well-demonstrated in market economies to be inefficient and unresponsive to consumer preferences. The diverse elements of housing policy in most countries were not coordinated as entailed by the enabling policies advocated by the United Nations and other organizations¹³ (this does not mean, however, that housing policies were uncoordinated before 1990, in fact, they were from many aspects better coordinated than since then - but the logic of coordination was different).

An overall assessment of the performance of the Eastern European housing model as of 1990 indicates that the legacy of policies and programs is in many ways more positive than might have been thought, and in many ways worse. Relative to countries at similar levels of economic development, the region is, in general, blessed with less crowded housing by any measure, better levels of access to basic infrastructure, and a housing delivery system that has been capable of producing enough housing to keep up with household formation. Secure, though highly circumscribed, rights to housing were established and homelessness was practically non-existent (at least not in a visible form) within the region.

On the other hand, the performance of the model has been more problematic. Incentives to key stakeholders in the sector have been contradictory, unclear, and perverse; institutions have been unsustainable in the context of market-driven demand and supply. Housing outcomes have deviated significantly from those in the West, with more limited and highly regulated tenure choice and property rights, more limited choices concerning the type and location of housing, low residential mobility and housing turnover, a monopolistic and inefficient building industry, underdeveloped financial institutions and instruments, distortionary and poorly targeted subsidies, a planning and regulatory framework largely unresponsive to either consumer needs or environmental sustainability, and policies and programs largely divorced from the inputs of major stakeholders concerning their needs and preferences.

In contrast to the assessments of many observers that the Eastern European housing sector before the transition was one in crisis because of severe quantitative and qualitative shortages of housing -- and one requiring massive investments akin to wartime reconstruction to solve its problems -- we find little evidence of the validity of this view. Notwithstanding clear problems with maintenance and upkeep of the housing stock throughout much of the region, the stock is generally of better quality and better served with infrastructure than is the housing stock of most other countries with similar economic resources. Instead, if there was a crisis, it was one of disequilibrium -- between preferences, ability to pay, and outcomes; between institutional structures and incentive systems and the requirements of a well-functioning housing sector capable of meeting the needs of all citizens. In the years of the transition, the inadequacies of the Eastern European housing model have become clear, and a major process of restructuring of the sector has begun.

1. THE HOUSING SECTOR IN TRANSITION

¹³ In addition to the United Nations' housing policy document, *A Global Shelter Strategy for the Year 2000*, the World Bank also advocates housing enabling policies in their own housing policy paper, *Housing, Enabling Markets to Work* (1993).

(a) Major factors influencing the transition period

Since 1990, major changes in the housing sector of Eastern European countries have taken place¹⁴, some as a result of conscious and explicit restructuring of incentives and institutions, and some as a result of the impacts of overall macroeconomic performance on the sector. This first phase of the transition embodied many elements of policy and institutional change consistent with an enabling strategy for housing, and encompassed nearly every element of the sorts of enabling strategies suggested by the United Nations and other organizations -- reforms on both the demand and supply sides of the market. Many positive aspects of reform have already been observed during the transition, and represent an appropriate base on which to build.

On the other hand, the role of the housing sector so far in the transition can be characterized largely as that of a "shock absorber" rather than as an "agency of change" having an influence beyond the sector.¹⁵ Many of the changes in both policies and outcomes have been reactive in character -- either to new macroeconomic and fiscal realities or to broader social and economic policies established outside the housing sector, such as general policies of privatization of state property and restitution of expropriated private property to former owners. Moreover, such changes as occurred were largely uncoordinated -- less a strategy for creating a well-functioning housing sector than a series of tactical maneuvers to address specific problems in areas such as housing finance, property rights, etc. Because of this, there have been mistakes and inconsistencies -- some of which will need to be remedied in subsequent stages of the transition. For example, restitution of property to former owners has largely been conceived in the absence of clear policies to establish a transparent and equitable social safety net which is capable of easing the burden of transition imposed on poor tenants of properties affected by restitution. Similarly, policies to move energy prices quickly toward world levels and to achieve full cost recovery have not been coordinated with policies to adjust other prices, such as rents, with the result that consumer budgets have often been squeezed to such an extent by utility price increases that there is little room left for authorities to raise rents in a way consistent with also achieving cost recovery of residential operating costs. Another well known inconsistency is in the process of privatization to sitting tenants; in most countries this happened sooner than the establishment of any workable form of mixed or private ownership multi/family buildings.

Understanding the recent performance of the sector and the policy and institutional changes associated with the early years of the transition requires an understanding of the macroeconomic situation in Eastern Europe within the past several years. For analytical purposes we define three "sub-regions" consisting of countries which are not only geographically adjacent but also in similar economic positions¹⁶. The CETE region consists of countries with

¹⁴ Market oriented changes took place much earlier (beginning in the 1970s) in Hungary, while housing policy in Yugoslavia was always quite different from the East European Model.

¹⁵ See Struyk, 1996 p.9ff, and p.57ff. , for an extended discussion of this point.

¹⁶ The subregions and the countries belonging to these are as follows:

CETE (Central European Transitional Economies): Czech Republic, Hungary, Poland, Slovakia, Slovenia.

SETE (South European Transitional Economies): Albania, Bulgaria, Croatia, Romania

Baltic countries: Estonia, Latvia, Lithuania.

The subregional data usually convey a good sense of broad differences among subregions, within each of which considerable similarity exists. There are, however, exceptions in the case of some indicators. In these cases we present data at both subregional and country levels.

the highest per-capita GNP (2298 USD in average, ranging from the Polish 1910 to the Slovenian 6540 USD). The differences are much smaller between the SETE and the Baltic region, having averages of 1702 and 1792 USD. (The picture is very similar when using PPP-based per-capita GNP data.) Approaching 1990, rates of GNP growth in many of the countries of Eastern Europe had been stagnating or beginning to fall. By 1990, and continuing through 1993-94 for most of the countries of the region rates of GNP growth were negative, often by as much as 10-15 percent per annum. Accompanying GNP decline, levels of investment were also declining. At the same time, inflation rates were high and, particularly in the Baltic states, rising -- with annual rates of inflation between 1990 and 1994 often in excess of 100 percent. By 1993-94, many countries in the region were beginning to experience positive growth, and inflation rates had fallen -- generally to less than 50 percent per annum. The change from decline to growth in GNP took place in 1993 in the CETE countries, in 1994 in the SETE region, and in 1995 in the Baltic countries. The CETE region has also had the most success in fighting inflation. In this respect the Baltic countries performed slightly better than those in the SETE region, cutting annual inflation to below 100 % in 1994 while the same happened in the SETE region one year later. (The most important macroeconomic data of the transition period are summarized in Table 2. The source of the GNP/capita data is the World Development report, while the PPP based GDP/capita data are taken from the recently published OECD report: Purchasing Power Parities in Eastern Europe.)

Table 2 Macroeconomic data, 1992-1996

	G N P/ cap.	P P P base d G D P / cap.	Factual and projected annual rate of change in Gross Domestic Products					Factual and projected annual rate of change in Consumer Price Index				
			1992	1993	1994	1995	1996	1992	1993	1994	1995	1996
	1992	1993										
Czech Rep.	2.450	8.422	-6.4	-0.9	2.6	4	4.8	11	21	10	10	10
Hungary	2.970	5.962	-3	-0.8	2.9	2	2	23	22	19	29	25
Poland	1.910	4.669	2.6	3.8	5	6.5	5	43	35	32	26	19
Slovakia	1.930	5.766	-7	-4.1	4.8	6	3.9	10	23	13	11	10
Slovenia	6.540	9.210	-5.4	1.3	5.5	4	5	201	32	20	14	14
total CETE countries	2.298	5.676	-0.7	1.6	4.3	5.3	4.4	37	30	25	22	18
Albania	590											
Bulgaria	1.330	4.193	-7.3	-2.4	1.4	2.5	2.5	91	74	96	80	30

Croatia	5.82 0	3.82 7	-9.7	-3.7	0.8	2	7	666	1517	95	3	3
Romania	1.13 0	3.64 3	-10	1.3	3.4	4	3	211	256	160	50	55
total SETE countries	1.70 2	3.79 6	-9.3	-0.2	2.6	3.4	3.4	223	350	125	47	39
Estonia	2.75 0	3.80 3	-31	-6.7	-3.2	5	5	1076	90	42	35	25
Latvia	1.93 0	3.07 0	-33.8	-14.9	0.5	-2.1	1.1	951	109	26	35	25
Lithuania	1.31 0	3.68 1	-37.7	-16.2	-1.8	5.3	4	1020	390	40	35	25
t o t a l BALTIC	1.79 2	3.50 3	-35.1	-13.9	-1.3	2.8	3.2	1008	239	36	35	25
t o t a l transition countries	2.05 8	5.02 0	-5.9	-0.1	3.3	4.5	4.0	168	155	60	32	25

In addition to these measures of macroeconomic performance, it was clear that a massive internal restructuring of the economies of the region had begun. Government's role in the economy was beginning to shrink, as state subsidies throughout the economy were eliminated; the private sector of the economy was beginning to grow; and new investment priorities, more in line with those of market-oriented and open economies were beginning to emerge. Investments were, for example, beginning to shift away from sectors that had been supported by "The Plan" such as agriculture, industry, and housing toward those which are among the fastest growing in many open, market-oriented developing countries -- trade, services, and transport and telecommunications.

Each of these changes in the macroeconomic context would, in a market-driven economy, be expected to result in a drop in resources allocated toward the housing sector. Among countries with the level of GNP per capita of the Eastern European region, housing investment has a large income elasticity of demand, with investment generally rising more rapidly than GNP as growth occurs, but also falling more rapidly if growth is negative. Also, in market economies, because of the need to finance housing over a long period of time, investment in the sector is highly sensitive to interest rates; when rates are high, variable, and uncertain, demand for new housing investment in market economies contracts rapidly. These factors alone would be enough to account for substantial declines in housing production and investment, but further pressures were placed on the housing sector by the fall in levels of government investment and the emergence of considerable pent-up demand for other types of investment within the economy. Drops in income, moreover, are associated with drops in demand for existing as well as newly built housing. Households in economies experiencing economic recession are less likely to wish to move house, trade up, or take on additional debt. With the development of the private sector of the economy and the introduction of positive interest rates on savings, housing loses its special function as being the best and safest form of household savings.

Before the transition, the housing sector would have been largely insulated from many of these factors. Resources allocated to the sector for new construction, operating subsidies, and subsidized loans would have been largely determined by central planners without regard for pressures of the market. But with the opening up of the economies of the region to market forces, no sector of the economy is completely immune from pressures created

by general macroeconomic decline, high inflation, and the necessity of internal restructuring. Therefore, in understanding many of the changes that have occurred within the past 5-6 years within the sector, it is essential to realize that the first great and obvious evidence of a "move to market" in the housing sector is in fact the creation of explicit behavioral linkages between the actors in the housing sector -- consumers, producers, and financiers -- and a wide variety of macroeconomic aggregates -- income levels and growth rates, inflation rates, investment propensities in different sectors, etc. These behavioral linkages have had a powerful impact on indicators of housing sector performance in the recent past.

In addition to opening up the sector to the influence of macroeconomic factors, broad policies have further influenced indicators of sectoral performance, such as

- decentralization, increasing the role of the local governments, replacing the former politically determined central planning with local decision making influenced by the local situation and local political forces;
- privatization and restitution, changing the structure and distribution of property rights, and also changing the distribution of wealth and the relative prices of owned and rented housing.

Finally, the nature of demographic change in the region exerts a powerful influence on the performance of the sector. Rates of household formation in the region are generally extremely low relative to those of other countries with comparable incomes in Asia, North Africa, and Latin America -- averaging only about 1.4 percent annually during the decade of the 1980s in capital cities of Eastern Europe, and even lower for the countries as a whole. Moreover, within the transitional period rates of household formation have generally fallen (to less than 1 percent in capital cities, for example). Low and falling rates of household formation are generally not conducive to a vigorous housing sector in market economies, and with the establishment of more market-oriented economies in the region, these falling demographic pressures would have been expected to further weaken effective demand for housing.. Demand has been further reduced by increases in outmigration from the region and falling rates of internal migration during the transitional period (there are some exceptions, such as Albania, Romania, where transition led to massive rural-urban migration, as a consequence of the elimination of the control over change of residence).

There are a number of alternative perspectives, however, on the effects of demographic processes within the region. Some analysts emphasize that the slow-down of the growth of urban population at the beginning of transition is probably a temporary process and "... urbanization may be expected to continue forcefully". (Dübel, 1996:12) This hypothesis is based on the assumption that the increase in real income is a driving factor for urbanization and on the fact that the urbanization level of most transitional economies is lower than that of the Western countries. The conclusion of this analysis is that "... most urban areas in transitional countries will certainly have to cope with population growth rates of 1-2 % per annum and higher for a prolonged period." (ibid, p.14) It is possible that a considerable part of this growth may be concentrated in cities other than capitals because of comparative advantages regarding transportation, proximity to markets, etc.

Two other demographic elements introduce uncertainty into demand projections. First is the large gap between urbanization levels between Western and Eastern Europe, which if the latter shifts quickly toward the former, large urbanization changes and corresponding increases in housing demand (estimated to be some 1.6 million additional units in Poland and Romania each, for example) will occur (Dübel, 1996:15). Such estimates are likely, however, to greatly exaggerate near term demand shifts. Urbanization rates in the region closely mirror differences in levels of economic development and economic structure. The large differences in these underlying

factors between Eastern and Western Europe will take many years to eliminate. Thus, while there is considerable uncertainty concerning the pace of Eastern European urbanization, it would appear to be inappropriate in the near term to use Western urbanization rates as either "standards" or near term forecasts for Eastern European effective demand.

The second factor creating uncertainty concerns residential mobility, which has been depressed both directly (by residence controls) and indirectly (by controlled rents, high private market prices, and restrictions on housing output) throughout the region. Many have argued that a freeing up of markets seems likely to increase mobility and internal migration as workers seek to move to areas with better job opportunities. This is indeed a powerful argument, supported by observations such as those by Coricelli, Hagemeyer, Rybinski, 1995 (cited in Buckley-Gurenko, 1996:8) that more than 25 percent of the high level Polish unemployment rate in 1992 was attributable to a mismatch in the locations of jobs and workers because of an inability to change residence to take new jobs. The needs of workers to respond to job opportunities will certainly be enhanced by the freeing up of markets, will create additional housing demand and will, in the process, reduce structural unemployment.

(a) The performance of the housing sector in the transition period

Keeping in mind the pervasive role played by both macroeconomic and demographic factors in influencing recent performance of the housing sector in Eastern Europe, many aspects of the "move to market" within the first phase of the transition can be observed. Following the format used to assess the Eastern European housing sector before the transition began, the following observations can be made:

Housing tenure and property rights -- The early years of the transition have seen a very substantial degree of privatization of state rental housing in the region. Table 3 shows that more than 3 million flats (almost one third of the public rental stock of 1990) have been sold to the sitting tenants and approximately 300 thousand flats (3 percent of the former public rental stock) have been restituted to the former rightful owners. These tenure changes mark the biggest property transfer in history in such a short time period¹⁷. As a result the share of the public and semi-public rental sector has declined from 33.0 percent to 23.5 percent of the housing stock from 1990 to 1994. According to rough calculations this wealth transfer equals to 25 percent of GDP for all of these countries¹⁸! In most cases this was a result of "give-away" privatization -- sales at less than 15 percent of estimated market value. Administrative features of privatization, however, differed considerably among countries. In most countries privatization was administered at the national level, but in the Czech Republic, Latvia, and Poland privatization decisions were devolved to the local level, resulting in very different treatment of similar households from one locality to another in these countries. In Poland cooperatives were also privatized, with a shift from public to private landlords.

¹⁷ The leading Western example on housing privatization is Great Britain where 2 million public rental flats have been privatized out of the total stock of 6 million - during a time period of 15 years. In Central Eastern Europe 31 % of the stock has been privatized, within 5 years!

¹⁸ According to the calculations of Robert Buckley, if the capital/output ratio of these countries was 4, and housing made up 50 percent of the fixed capital stock, and land increased this value by 20 percent, then 10 percent of the housing stock equals $4 \times 0.5 \times 1.2 \times 0.1 = 0.25$, i.e. 25 percent of GDP. That is probably on the order of USD 50 billion.

Table 3 The magnitude of privatisation and restitution in selected countries around 1994

	Public rental sector 1990		Privatisation to sitting tenant 1990-1994		Restitution 1990-1994		Public rental sector (1) 1994	
	'000	%	000	%	000	%	000	%
Czech Republic	1207	100	17	1,4	82	6,8	1108	91,8
Hungary	848	100	339	40,0	0	0,0	509	60,0
Poland	3274	100	196	6,0	33	1,0	3044	93,0
Slovakia	483	100	11	2,3	1	0,3	470	97,4
Slovenia	208	100	146	70,0	5	2,2	58	27,8
total CETE	6031	100	709	11,8	120,8	2,0	5189	86,2
Albania	239	100	225	94,4	9	3,6	5	2,0
Bulgaria	224	100	113	50,3	59	5,0	242	44,7
Croatia	402	100	232	57,7	0	0,0	188	44,8
Romania	1616	100	1360	84,2	0	0,0	256	15,8
total SETE	2481	100	1930	77,3	68	2,7	691	20,0
Estonia	395	100	35	8,8	0	0,0	360	91,2
Latvia	576	100	0	0,0	49	8,5	527	91,5
Lithuania	596	100	462	77,5	57	9,5	77	13,0
Baltic countries	1566	100	496	31,7	106	6,7	964	61,6
total transition countries	10078	100	3136	31,1	294	2,9	6844	66,0

(1) These figures show the remaining housing units of the public rental stock in 1990, without new construction.

The results of privatization have so far had little impact overall on the size of the private rental sector, which has risen from only 2.1 to 3.8 percent of the stock throughout the region. Some countries, nevertheless have experienced large changes with Lithuania, Latvia and Estonia experiencing increases from 0 to 8.5 and 5-5 percent respectively, and the Czech Republic from 0.9 to 4.7 (as a result of restitution).

Table 4 The tenure structure around 1990 and 1994

	Public rental		Private rental		Other (semi-Pub.) Rental		O w n e r - Occupied		Other housing	
	1990	1994	1990	1994	1990	1994	1990	1994	1990	1994
Czech Rep.	29,6	27,6	0,9	4,7	10,4	6,1	40,3	42,2	18,8	19,4
Hungary	22,0	13,0	0,5	1,0	NAV	NAV	77,5	86,0	0,0	0,0
Poland	29,7	25,4	5,2	5,2	14,2	13,5	40,2	41,7	10,7	14,2
Slovakia	27,3	26,0	0,0	0,5	NAV	0,5	50,2	51,6	22,5	21,4
Slovenia	31,6	8,9	3,0	3,4	0,0	0,0	65,4	87,7	0,0	0,0
Total CETE	28,2	23,1	3,0	3,9	9,3	8,2	48,5	52,0	11,0	12,8
Albania	35,4	2,0	0,0	NAV	0,0	0,0	64,6	98,0	0,0	0,0
Bulgaria	6,6	6,8	1,5	3,2	0,2	0,3	91,7	89,7	0,0	0,0
Croatia	25,5	10,6	NAV	3,7	3,7	NAV	69,6	84,5	1,2	1,2
Romania	21,1	7,8	1,0	3,0	0,3	0,2	76,1	88,9	1,5	0,2
Total SETE	18,7	7,6	1,1	3,1	0,7	0,2	78,7	89,1	1,0	0,3
Estonia	65,0	56,0	NAV	5,0	NAV	3,0	35,0	30,0	NAV	6,0
Latvia	64,0	54,0	0,0	5,0	14,0	2,0	22,0	39,0	0,0	0,0
Lithuania	51,4	12,9	NAV	8,5	NAV	0,0	39,2	78,6	9,4	0,0
Total Baltic	58,7	36,4	0,0	6,5	14,0	1,3	32,4	54,4	4,1	1,3
total transition countries	27,0	18,6	2,1	3,8	8,5	5,9	56,0	64,2	6,4	7,5

In all the tables NAV means that data are not available, NAP means not applicable.

Changes in tenure have mainly affected the extent of owner occupation, which rose from 58 percent to 64 percent from 1990 to 1994¹⁹. Yet notwithstanding large increases in ownership at the country level, rates of owner occupation remain relatively low in large cities. Indeed, for all countries in the region with the exception of Slovenia, the proportion of owner occupied units is lower in capital cities than in the country as a whole. Table 5, illustrates these differences for the sub-regions. These differences illustrate, on the one hand, the long lasting effect of having much lower ownership rates in urban settlements than in rural ones. On the other hand it refers to the fact that in some countries devolution of privatization to local authorities might have slowed the rate of privatization. As a result, the significant gap continues to exist (except for the SETE region) between tenure patterns in smaller cities and the countryside and major cities.

¹⁹ The expansion of owner occupation was even more substantial (from 58 percent to 68 percent) when classifying private rental as being part of the owner occupied sector which would be justified by the fact that private rental housing means in the transition countries almost exclusively housing rented from private persons who own the units.

Table 5 Percentage of housing stock which is owner-occupied in 1994

	Total transitional economies	CETE countries	SETE countries	Baltic countries
Countries	64 %	52 %	89 %	54 %
Capital cities	51 %	36 %	82 %	29 %

The differences between the tenure structure of the country and the capital city is especially large in almost all of the CETE countries (Czech Republic: country 42 % ownership, capital city 13 %, Hungary: 86 % versus 65 %, Poland: 42 % versus 16 %, Slovakia: 52 % versus 8 %) and in two of the Baltic countries (Estonia 30 % versus 13 % and Latvia 39 % versus 16 %).

In addition to privatization, restitution to its owners of private property which had been nationalized has been undertaken throughout much of the region, although the pace has been generally slow and also variable. By 1994, most countries had restituted between 2 and 10 percent of their public housing stock. The incidence of restitution is considerably higher in some cities such as Prague and Riga, with 37 and 16 percent of their stock having been affected. In general, grace periods for relocation of tenants have been applied -- with periods for relocation of from 3-7 years typical; although some countries (e.g. Poland and Slovenia) have specified that sitting tenants have lifetime occupancy rights with restitution occurring only upon death or voluntary leaving by the tenant. Administrative aspects of the restitution process are judged to be largely settled within the region, although details concerning the rights of sitting tenants are still to be worked out in a number of places.

Housing prices and affordability-- During the transition rents have been rising, sometimes substantially, though at very different rates throughout the region. Relative to the rates at which incomes have increased in nominal terms, rents have risen at slightly more rapid rates in the Czech Republic, Slovakia, while at much more rapid rates in Poland, and Latvia. These countries all had relatively large as yet unprivatized state rental housing sectors (from 25 to 54 percent of the stock) compared to most of the other countries in the region, where the remaining public rental sector was no higher than 13 percent. It appears that, in general, the political risk associated with raising rents was considered to be less when the stock of state housing was still high enough to give citizens a feeling that there was something to fall back upon if they were unable to pay higher rents associated with reform. Or, in other words: rents were increased when the remaining public rental sector was not too low to "punish" only the lowest income strata of the society with the rent increase. Yet despite rent increases in some of the countries, the overall rent-to-income ratio within the region fell from 1990 to 1994, from 5.1 to 1.9 percent, indicating a general tendency of public authorities within the region to avoid confronting the difficult decision of revising rents in the direction of covering a greater share of operating costs.

In contrast, utility costs have risen relative to incomes in every country within the region. Overall, utility costs, which took 5.8 percent of consumer budgets in 1990 took 11.4 percent by 1994. Thus rents plus utilities rose from 10.9 to 13.3 percent on average between 1990 and 1994. In some countries utility costs rose to levels between 10 and 20 percent of income, effectively preempting shares of consumer budgets that might instead have been used to pay higher rents. And, despite sharp increases in utility costs throughout the region, energy prices, which drive

utility costs to a considerable degree are still well below world prices throughout the region. Consequently, further attempts to bring energy/utility prices toward world levels, consistent with full cost recovery, will crowd out to an even greater degree budget shares that could be used to absorb rent increases. This situation points out the need to consider jointly issues of cost recovery, subsidies, and the degree to which utilities, rent, and other elements of consumer budgets are to be treated as part of a social safety net.

Table 6 Housing expenditures (rents and utilities) to income in the public rental sector in 1990 and 1994

	Rent to income		Utility expenses to income		Rent + utility expenses to income	
	1990	1994	1990	1994	1990	1994
the Czech Republic	2.7	3.1	3.9	7.8	6.6	10.9
Hungary	5.0	3.8	5.0	19.7	10.0	23.5
Poland	1.0	1.8	5.0	11.1	6.0	12.9
Slovakia	5.0	5.3	7.2	14.7	12.2	20.0
Slovenia		5.2		9.1		14.3
total CETE	2,4	2,7	5,0	12,4	7,4	15,1
Albania	1.0					
Bulgaria	15.2	1.3	6.8	6.8	22.0	8.1
Croatia						
Romania	8.3	0.2	8.3	9.5	16.6	9.7
total SETE	10,4	0,5	8,0	9,2	18,4	9,7
Estonia		4.2		9.9		14.1
Latvia	0.8	1.8	1.5	9.1	2.3	10.9
Lithuania		1.5		17.5		19.0
total Baltic States	0,8	1,7	1,5	13,9	2,3	15,6
total transition countries	5,1	1,9	5,8	11,4	10,9	13,3

While rents are subject still to administrative determination throughout much of the region because of the continuing importance of the state rental sector, housing prices are free to be set by market forces. Based on recent data, housing prices appear to have fallen relative to incomes in many countries of the region. The median house price-to-income ratio has dropped from a level around 6-7 in 1990 to 4.4 in 1994, although there is a wide margin for error in these data (within capital cities the drop was from 9.3 to 6.8). The falling ratio is consistent with better functioning housing markets throughout the region, possibly a result of higher residential mobility, loosened restrictions on multiple ownership, more housing in private hands (as a result of restitution and privatization), decreasing importance of residential real estate as main vehicle for maintaining the value of savings, and the expanding ability of the private construction sector to produce housing with characteristics sought after by those who previously were most constrained in their choices. Yet while the observed drop is probably real, even allowing for a margin of error, the ratio in the capital cities is still high when compared to that found in other comparable

cities. Among income comparators, as noted above, the "typical" ratio is around 5, with many countries in the range of from 3.5 to 4.5. Thus there remains considerable scope for expanding supply and redistributing the stock to meet the evident excess demand that remains in particular market segments in most countries of the region.

Table 7 Housing price-to-income ratio and house price inflation

	House price to income		House price
	1990	1994	1994
Czech Republic	NAV	5,6	2,0
Hungary	5,9	5,7	-4,0
Poland	NAV	3,2	-9,0
Slovakia	4,0	5,6	-6,8
Slovenia	NAV	7,0	-2,7
total CETE		4,3	-6,2
Albania			1,2
Bulgaria	25,0	5,8	-1,9
Croatia			0
Romania	16,6	4,7	-30
total SETE		5,0	-17,7
Estonia	NAV	3,6	-25
Latvia			
Lithuania	NAV	3,2	-4,7
Baltic states		3,3	-10,5
Total transition countries		4,4	-10,4

Social problems have increased substantially compared to 1990. Because of lack of reliable income and price information the extent of this increase is difficult to judge. Housing expenditures (rent+utilities) to income in the public rental sector are 33 percent of income of the lowest quintile of the population, with higher values of 38 percent in CETE and 51 percent in Baltic countries. These figures demonstrate the importance of establishing elements of a housing safety net, for example establishing means tested housing allowance systems (Hegedüs-Struyk-Tosics, 1991)²⁰. In the absence of such social safety net measures an increasing number of families are confronted with the difficult choice between moving to a smaller flat (which is difficult due to the still low mobility rates), and decreasing utility consumption (which is in many cases also difficult because of the lack of individual metering and regulating possibilities). The outcome in an increasing number of cases is for households to stop paying the fees (resulting in arrears) or losing the flat (becoming homeless).

²⁰ Most housing allowance systems embody rules which ensure that households pay no more than a pre-determined fraction, say 30-35 percent of income for housing expenditures (calculated for average housing situation). The fraction may be set differently for different groups, e.g. low income households might be expected to pay a smaller fraction since food expenses typically absorb higher fractions of their incomes than is the case for higher income groups.

There are no reliable data on arrears or homelessness in the region because of very different practices of collecting fees throughout the region and because of different definitions. The analysis of the existing data shows, however, that the level of arrears depends on the level of housing expenditures relative to income and on the existence and functioning of the legal enforcement system (eviction, foreclosure) and on the “behaviour” of the increasingly independent utility companies. Anecdotal evidence points to increasing street homelessness in the capital cities of the region but existing statistics do not even show the number of places in different kinds of homeless shelters.

Housing quality and quantity – The average East European figures portray a relatively good situation regarding housing quantity and quality. There are, however, substantial differences among the sub-regions and the individual countries. When measuring housing deficit, the two indicators lead to slightly different results: the number of dwellings compared to the population is very low in Albania and Poland, while the comparison of the number of households and dwellings suggests problems in Poland, Latvia and Lithuania. Density indicators highlight the special situation of the countries of the SETE sub-region: the number of flats meets or even exceeds the number of households, but the size of the flats (number of rooms and floor area) is very small, resulting in high density indices.

In the past 50 years infrastructure has been developed in two major forms in Eastern Europe: in the form of a) massive public investments, concentrating almost exclusively on growth centers in the form of large housing estates; and b) by the people themselves. As a result of this duality of public and private investments a rather special pattern of infrastructure services has developed. There is a big “infrastructure scissor” in all of the transitional economies: the piped water system is much more developed than the piped sewage system. In the socialist period the limited amount of capital devoted to infrastructure was concentrated on the cheaper sectors (such as water supply) as opposed to the more expensive ones (such as sewage systems). The lack of the expensive infrastructure had to be compensated by “second-best” methods, such as septic tanks which needed private instead of public investment and were cheaper in terms of the immediate investment costs (even if having serious environmental consequences in the longer run).

While the development of water and sewer networks was mainly public investment, the decision whether bathing facilities were built in the housing units mostly depended on the financial position of households. In the CETE countries the standards were higher and the financial situation was better, therefore the majority of flats are supplied with a bath or shower. This share is even higher than the proportion of flats supplied with piped sewer, which is a clear sign of the wide use of septic tanks.

Table 8 Indicators of housing quantity, crowdedness and housing quality, 1994

	H o u s i n g units per 1000 people	Household /dwelling	sqm/pers	person/ room	P i p e d water (% of flats)	Bath o r s h o w e r (% o f flats)
Czech Republic	397	1,01	25,5	1,04	96.9	90.9
Hungary	385	0,99	32,1	0,92	82.9	85.9
Poland	296	1,06	18,2	1,02	84.2	71.5
Slovakia	334	1,00	21,9	1,14	91.8	88.9
Slovenia	338	0,95	19,0	1,33	97.4	86.6
total CETE	330	1,03	22,4	1,02	87.4	79.6
Albania	219	1,00	8,0	2,70	57.5	54.0
Bulgaria	405	0,88	16,7	1,00	<u>83.4</u>	<u>44.7</u>
Croatia	336	0,98		1,10	<u>86.2</u>	<u>75.7</u>
Romania	341	0,95	17,4	1,19	<u>53.6</u>	48.2
total SETE	344	0,94	16,6	1,21	65.3	50.9
Estonia	410	1,03	32,0	1,18	<u>89.7</u>	<u>73.2</u>
Latvia	370	1,13	20,9	1,21	<u>76.6</u>	<u>65.9</u>
Lithuania	329	1,06	19,7	1,30	<u>58.9</u>	<u>53.8</u>
total Baltic States	358	1,08	22,8	1,24	71.7	62.2
total transition countries	337	1,00	20,4	1,11	78.4	68.2

Data underlined are from "Trends in Europe and North America". Data for Lithuania: excluding private ownership dwellings.

The individual country data are weighed by the number of dwellings to get the regional averages.

In the socialist period of housing policy rents were very far from operation and maintenance costs thus the physical conditions of multi-family rental stock were dependent on the availability and allocation of central subsidies. As a result of the politically determined decision making structure over the scarce financial means available for maintenance the majority of the stock got in worse and worse shape (deferred maintenance was growing) while rental houses in better locations with higher status residents were kept in good shape. In the transition period this latter part of the state housing stock has been privatized and the remaining rental stock consists almost exclusively of run-down, low quality buildings. It is a common belief that the period of economic decline during the transition has been reflected in a good deal of further deferred maintenance and some decline in housing quality throughout the region. The withdrawal of capital subsidies for housing throughout the region was substantial, operating subsidies for state housing have in most countries been drastically cut or totally eliminated. New rents are still very far from operating costs (with the exception of Slovenia). Consequently, it can be assumed

that the remaining public rental sector is in bad shape and in a difficult financial position²¹. Given the lack of central budget subsidies and the limited possibilities to increase rents to cost-covering levels (in part because other price increases, especially those of utilities, have crowded out the chances of real rent increases) the remaining public rental sector would need a special support strategy (using some portions of the privatizational revenues as subsidies) for addressing the problems of deferred maintenance. At the moment, however, there is no evidence of this kind of support strategy in the countries of the region.

Levels of maintenance of the more than 3 million newly privatized dwellings are as yet unknown. In many of the countries the process of privatization was very fast and occurred even before the new legal framework for the functioning of these buildings was established. It can be assumed that the future of these newly private or mixed ownership buildings depends very much on the ability to pay of their residents and also on their cooperation. In any case, this constitutes a cause for concern in many places; clear needs for additional data collection and analysis exist in this area.

Production and investment -- Production and investment both fell sharply over the period 1990 - 1994. Investment in housing relative to GDP fell from 3.2 percent to 1.6 percent (an average fall of 50 percent) and ranged from a 65 percent decline in Poland to only 22 percent in Romania (but the latter was already at a very low level). Despite the large average drop, the median fall in housing investment relative to GDP was only 33 percent. Considering that even in market economies housing output is highly variable over the business cycle (peak to trough declines of one third are not at all uncommon in market economies), these declines - given that they also occurred at a time of high inflation and radical restructuring of the economy - appear to be not much different than what might have been expected in a market economy. Some analysts, however, note that at least "... 1.5 percent of GDP is needed to achieve zero net production" (Buckley - Gurenko, 1996:11), and, on this basis, in many of the countries of the region housing production decreased to a level which is negative net of capital consumption. Furthermore, it is not only the (low) level of housing production but also its unusually high amplitude which is of interest. This is likely to carry in its wake more political pressure to do something about the housing shortage, even if there is not actually a stock shortage (Bob Buckley).

²¹ In the lack of comparable data on the physical condition of existing multi-family public rental buildings this statement can be illustrated with data from Budapest: the total public rental stock consisted of 414.000 units in 1989, out of which more, than 300.000 units have been sold within 6 years during the process of give-away privatization. The remaining public rental stock belongs to three main categories: totally public-owned buildings, mixed public-private ownership buildings with the public ownership in majority, mixed public-private ownership buildings with the public ownership in minority. The first two categories mark very bad quality buildings: 71 % of the flats in the first and 59 % of the flats in the second category are in buildings characterized in "bad shape", needing urgent interventions.

Table 9 Measures of new investment into the housing sector

	Housing investment to GDP			New construction per 1000 population			Population change 1994 to 1990 %	Household formation/ 1000 pop 1994 to 1990, yearly	Size of new units sq.m.	
	1990	1994	1994/ 1990	1990	1994	1994/ 1990			1990	1994
Czech Republic	3,2	2,4		4,3	1,8	42%	0.33	0.00244	77	87
Hungary	4,2	2,8	67%	4,2	2,1	49%	-0.94	0.0008	90	101
Poland	5,2	1,8	35%	3,5	1,9	54%	1.04	0.00066	77	89
Slovakia		0,2		4,9	1,3	27%	1.55	0.00042	82	94
Slovenia	4,2	3,0	71%	3,9	2,8	72%	1.22	-0.00038	93	102
total CETE	4,2	2,0	48%	3,9	1,9	49%	0.67	0.00091	80	92
Albania	1,4			3,9	3,7	95%	0.09	NAV	36	
Bulgaria	1,5	0,8	53%	3,0	1,1	33%	-2.79	NAV	72	84
Croatia	3,2	2,0	63%	3,9	2,0	51%	0.00	NAV	80	84
Romania	0,9	0,7	78%	2,1	1,6	76%	-0.35	NAV	47	66

total SETE	1,4	0,9	64%	2,6	1,6	62%	-0.81	NAV²²	61	72
Estonia		0,2		4,8	1,3	27%	-4.13	-0.00481	62	82
Latvia	4,5	1,6	36%	5,0	0,3	6%	-3.79	-0.0074	61	79
Lithuania		2,7		6,0	1,8	30%	0.43	-0.00034	64	10 1

²² There is no reliable data available of the number of households in 1994 in any of the SETE countries.

total Baltic States	4,5	1,8	40%	5,4	1,2	22%	-1.89	-0.00353	63	92
total transition countries	3,2	1,6	50%	3,6	1,8	50%	-0.02	0.00029	73	86

On the other hand production continued to fall even after some of the countries in the region began to experience positive growth after 1993, evidently a sign that more than a simple linkage to overall macroeconomic performance is continuing to influence production and investment in the sector. One likely influence is the internal restructuring in investment priorities that was noted above -- from housing to trade, services, and telecommunications as a result of pent-up investment demand and structural shifts. At the same time, however, considerable anecdotal evidence suggests that shifts from new construction to self-construction and rehabilitation have begun to occur, which might be offsetting declines in new construction to a considerable degree -- though to an extent not likely to have been adequately captured in official statistics. Indeed, this sort of shift from new construction to modification of the existing stock is an expected response of a market which has in relative terms amply provided housing space in relation to the incomes of Eastern European countries, but which has limited variety and high-end elements of housing quality and huge problems with deferred maintenance.

Output in physical terms has also fallen from 3.6 dwellings per 1000 people in 1990 to 1.8 per 1000 in 1994, a drop of 50 percent, with the steepest drops in the Baltics -- which also experienced steeper declines in GNP over the period. Notwithstanding these drops in physical production, in a number of countries in the region (notably in the Baltic countries and in Slovenia) the number of households fell over the same period, while in the CETE countries the increase in the number of households was less than the increase in the housing stock. As a consequence, the net number of dwellings per household actually increased in the region, i.e. the household/dwelling indicator decreased from 1.02 to 1.00. It is unclear whether this favourable tendency²³ is valid also for the SETE countries as there is no information available on the trends in household formation. There are no similar data available for the urban areas, where housing demand grows usually faster than the national average. However, the simple comparison of the change in the number of households vs. the change in the number of housing units shows that the broader trend is also valid for the capital cities of most of the countries²⁴.

Notwithstanding questions about the adequacy of the existing stock, it is apparent that the opening up of housing markets to private construction activity has resulted in a significant increase in the size and quality of dwellings being produced, generally in response to effective demand in parts of the market that were restricted as a measure of policy in the former system. From 1980 to 1990, average unit sizes of newly built dwellings had increased from 62 to 73 square meters, an increase of about 18 percent. But in the subsequent four years the average size of new units being produced grew to 86 square meters -- an average increase of 22 percent (and a range of growth between 5 and 58 percent within the region). Increases in size were largest in the Baltics -- from

²³ The decrease or stagnation of population and the number of households is certainly not favourable in itself (and in some countries this is considered to be a major problem) but it has favourable effect on the housing situation.

²⁴ It is only Ljubljana (Slovenia) where the number of households grew faster than the number of housing units, while in Warsaw (Poland) the two were in balance. In the other cities the expansion of the housing stock was the bigger (no data for Bulgaria, Croatia, Romania).

30 to 58 percent. These were the countries that initially had the most Soviet style housing systems and thus the ones where pent up demand at the high end of the market could be expected to be the greatest; places with the most liberal planning regimes before the transition were already producing the largest units in the region. One measure of the extent of this "upmarket" move in production comes from comparing production in Eastern Europe to that of Western Europe, where the average size of newly built dwellings in 1994 was 95 square meters -- a difference of only about 10 percent despite the fact that officially measurable incomes in Eastern Europe were only about one-eighth as high as those in Western Europe. Average new units being produced in each country of the region except Romania were larger than the median dwelling in the nine Western European capital cities surveyed in the Housing Indicators Program (70 square meters in 1990). While data were not collected on other aspects of housing quality of newly built housing, considerable anecdotal evidence exists suggesting that other aspects of housing quality were also increasing over this period.²⁵

Another aspect of production and investment over the early transitional period is the restructuring of the building industry, which has proceeded extremely rapidly. In 1980 some 55 percent of new housing was produced by the public sector, with another 16 percent by cooperatives where the public sector has also been heavily involved in design and production; the rest (29 %) was private construction, mainly in the form of self-help construction. By 1994, public construction had fallen to 20 percent; cooperative housing had risen to 20 percent and private production had risen to about 58 percent. The new element is the appearance of market-type housing construction²⁶, although its share (2 %) is at the moment very low, due to the high prices of new dwellings compared to incomes and the unsolved problems of mortgage financing. This restructuring of the construction sector will continue in the future: besides further decline in the public sector the most probably trend is a very sharp decline in cooperative construction. Both trends will further increase the share of private and market forms of new construction.

²⁵ One piece of evidence regarding increasing dwelling quality relates to construction costs, which appear to have risen faster than general prices over this period. Construction prices could, however, have risen more rapidly than other prices simply because of a lifting of price controls and as a consequence of the changes in the content of price (in many countries VAT has been introduced and extended to new construction, social security has to be paid on the workers salaries, etc.), thus more direct investigation of housing quality changes is warranted.

²⁶ It is very difficult to establish a clear differentiation between private and market construction. The typical "speculative" construction (where the future buyer of the unit is not known until the construction has totally been finished) is very rare in the region. However, there are many transitional forms between self-help and speculative building: either some part of the construction activity is contracted out, or the whole construction process is carried out by one private developer but the buyer of the unit is known before the construction process starts (various pre-financing schemes).

Table 10 New housing constructions by the type of developer, 1980, 1994

	P u b - lic	Coop	Mar- ket	Priv- ate	T o - tal	P u b - lic	Coop	Mar- ket	Priv- ate	Total
	housing				%	housing				
	1980					1994				
Czech Republic	42	34	0	24	100	28	31	NAP	41	100
Hungary	52	0	0	48	100	3	2	8	87	100
Poland	46	28	0	26	100	10	42	2	46	100
Slovakia	36	38	0	26	100	14	33	NAP	53	100
Slovenia	51	0	0	49	100	10	0	0	90	100
total CETE	45	24	0	31	100	12	30	2	56	100
Albania	51	0	0	49	100	42			58	100
Bulgaria	52	0	0	48	100	62	0	0	38	100
Croatia	38	0	0	62	100	8	0	0	92	100
Romania	93	0	0	7	100	33	0	1	66	100
total SETE	70	0	0	30	100	33	0	0	67	100
Estonia	86	8	0	6	100	74	0	NAV	26	100
Latvia	73	21	0	6	100	32	44	0	24	100
Lithuania	64	18	0	18	100	18	30	0	52	100
total Baltic States	72	17	0	11	100	31	29	0	40	100
total transition countries	55	16	0	29	100	20	21	2	57	100

These figures, however, conceal a great deal of variation within the region. The central European countries, which already had a high proportion of privately built housing in 1980 (31 percent) experienced a relatively modest increase in the share of private construction (to 56 percent) although in some countries such as Hungary and Slovenia the private sector's share became a totally dominant 87-90 percent by 1994; Southern European countries had larger increases in the share of the private sector, from 30 to 67 percent, and the Baltics, which began with the lowest share of private construction (11 percent) experienced the smallest shift (to 40 percent) by 1994.

These changes in the type of developer were accompanied by dramatic changes in the organization of the building industry whenever large shifts from public to private developers took place. In 1980, 41 percent of housing throughout the region was on average built by the five largest developers within each housing market, with 71 percent built by large developers in the Baltics, which were more dominated by public developers. By 1990, the average "concentration ratio" had fallen to 31 percent, and by 1994 to 13 percent -- an extremely low industrial concentration ratio, and one which suggests the emergence of a highly competitive building industry in most countries in the region in an extraordinarily short time. A characteristic feature of this reorganization is the emergence of small construction firms. In the Czech Republic, for example, in 1990, firms with fewer than 200

employees accounted for only 0.2 percent of the output of the Czech construction industry, while firms with over 2000 employees accounted for about 56 percent of output. By 1994, the positions were reversed, with small firms accounting for 55 percent of output, and large firms accounting for only 16 percent. These trends suggest that the basis for a highly responsive building industry is being rapidly created throughout the region.

There are also substantial changes in land supply which was one of the most controlled elements of the socialist housing model. Restrictions on the private ownership of land have been lifted, and land is becoming more and more a market good. High land to new unit prices in some countries show, however, that the land market is far from working efficiently. To introduce the theoretical possibility of free and unrestricted land ownership is not enough, especially if the title registration system is non-existent or it takes years to get the final registration. Furthermore, administrative difficulties of restitution slowed down substantially the development of the private land market. In this situation local governments - in some of the countries still big landowners - choose to play an active, initiating role in the development process transferring serviced areas to developers at below-market price, asking for compensation after the project has been completed. The cautious use of this kind of direct involvement and subsidization of the building process can become an important initiator of the construction process in the transitional period, but its subsidy content and distorting effects on the market must be recognized and controlled.

There is some question concerning the degree to which the regulatory framework, comprising both building codes, and regulations concerning infrastructure standards and land use, will accomodate further moves downmarket -- i.e. in the direction of allowing housing to be built that is smaller, of lower quality than that now being built, at higher residential densities, and with more affordable infrastructure standards. At current low levels of output addressed to the high income end of the market, the private construction industry appears to be relatively unrestricted in its ability to address incremental housing demand. But by the time that much of that demand has been satisfied and economies begin to recover more vigorously, it is unclear that regulations themselves and the efficiency with which they are administered (e.g. in the time that it takes various planning permissions to be received) will be a help or a hindrance to rapid market expansion in the market for middle and lower income housing construction.

Finance -- Bank reform is one of the most important areas in the transition, and countries within the region have followed a number of different paths toward restructuring. In some cases governments have retained much of the pre-transition structure of institutions, but have relied on recapitalization of state owned commercial banks, aiming in some instances at eventual privatization. In other cases, there has been extensive creation of private banks. Regardless of the reform path chosen, however, the scale of lending by banks to the private sector remains small relative to the size of the economies in which they operate.

The role of housing finance within the overall financial system, which was generally small to begin with, has generally lessened over the early years of the transition. This is partly due to the high nominal and real interest rates, partly to the lack of competition and other institutional problems. The Housing Credit Portfolio, the share of housing loans among the assets of the banking system, fell between 1990 and 1994 in six out of seven countries which reported data for both time periods. By 1994, the median value of this indicator for 11 countries on which data are available was 6 percent (the weighted average below 9 percent) -- a level no higher than that of many sub-Saharan African or South Asian countries at considerably lower levels of economic and financial development. (As a consequence, the credit-to-value ratio is very low, only 12 percent.) In part this is a result of the understandable "implosion" of lending for housing resulting from the combination of rapidly falling government subsidies for

housing purchase, which had been the main source of funds for banks lending for housing within the region, and the inability of the state sponsored housing banks to mobilize funds from alternative sources in high inflation environments. In part it is attributable to major concerns on the part of banks concerning the "real" side of lending for housing, where credit risks are higher than they would be for housing lending in market-based economies -- because of uncertain title, lack of up-to-date or well-functioning property registration systems, or inability to foreclose on mortgage loans in default. And in part it is a function of the lack of competition within the banking industry as regards housing lending. In 1990, 8 of 11 countries in the region relied on a single bank to make all housing loans. The most competitive housing finance environment was in Slovenia, where only 64 percent of housing loans were made by the largest bank. By 1994, conditions were little changed. The median share of housing loans made by the largest lender in the sector had fallen only to 83 percent. At the same time, however, lending practices were being rationalized throughout the region. Interest rate spreads between lending rates and deposit rates in housing banks had been negative in 1990 for every country in the region, but had become non-negative for every country except Albania by 1994. The median positive interest rate spread within the region of about 8 percent in 1994 reflected the continuing inflationary environment within which banks were operating, a level typical of bank practice in highly inflationary economies such as those of Latin America, but well above normal levels in market economies with only modest inflation. As desirable a shift as this may appear to be, it was apparent that even positive spreads of 8 percent were lower than spreads available on other types of lending, including that for central government financial obligations -- a situation which dampened considerably the willingness of even the housing banks to extend loans for housing.

Table 11 Housing finance indicators

	Housing credit portfolio		Credit to	Housing	Housing loan to one	
	1990	1994	1994	1994	1990	1994
Czech Republic	5.2	3			-3,0	6,0
Hungary	16.8	8.4	10.4	80	-0,1	8,1
Poland	4.1	19	17.9	96	-115,6	9,5
Slovakia	5.8	4.2	10	98	-1,5	5,2
Slovenia	25.5	14.9	37.2	42	NAV	2,8
total CETE	7.0	13.6	16.5	91.4	-69.7	8.2
Albania		8.9		94	NAV	8,3
Bulgaria		1.9	5.5	85	-6,0	-8,0
Croatia				74		
Romania		0.6	3.7	85	-4,0	18,0
total SETE	2.2	1.7	4.2	84.4	-4,5	10.7
Estonia		0			0,0	0,0
Latvia		2.8			NAV	50-100
Lithuania		2.7	16	40	-1,0	9,0
total Baltic state		2.2	16.0	40	-0,7	20.8
Total transition		8.7	12.2	85.4	-43,5	9,9

Weighted by the number of population of 1994.

Other innovations, however offered more promise in changing the incentives for banks to lend and households to borrow. These included the introduction of indexed mortgages such as the Deferred Payment Mortgage in Hungary, the introduction of a mortgage banking system which relies in part on issue of mortgage bonds to raise funds in the Czech Republic, and the introduction of a variant on the German Bausparkasse system in the Czech Republic and Slovakia.

Subsidies -- While it is difficult to obtain comparable data throughout the region and especially over time, it appears that housing subsidy levels have fallen considerably throughout the region. In Hungary, Poland, and Latvia, for example, where estimates were obtained of both on-budget and off-budget subsidies in 1990 and 1994, housing subsidies as a share of government budgets are estimated to have fallen from 12, 10, and 14 percent respectively to 5, 6, and 2 percent. While falling housing subsidies represent a necessary concession to the fiscal realities of economic transition, there has been little attention paid to other important aspects of subsidy restructuring -- particularly those of improving targeting mechanisms and coordinating housing subsidy policy with other policies designed to provide a transparent and equitable social safety net. In 1994, data collected for the Regional Monograph indicated that among 9 countries reporting on the targeting of subsidies that the median estimated share of housing subsidy benefits accruing to households below the middle of the income distribution was only about 12 percent. Only Estonia and Latvia, with very small overall subsidy levels (3 and 2 percent of government budgets respectively), which are earmarked heating cost subsidies for poor people, are estimated to have targeted most (indeed all) of their benefits for the poor. Housing allowances, which offer the prospect of permitting careful subsidy targeting which could help to ease the burden of transition for many of the most vulnerable groups within the economies of the region have yet to play a major role in the period of transition. On the other hand, some new subsidy mechanisms have begun to emerge, although these are often highly idiosyncratic from country to country and often appear not to be part of an overall subsidy strategy so much as a one-off response. These include, but are not limited to: subsidies granted in conjunction with contractual savings schemes (which are the equivalent of subsidies of downpayments for owner-occupied housing), VAT exemptions for the purchase of new dwellings, and the granting of below-market interest rates for the purchase of cooperatives or new owner occupied housing. Most subsidies are connected to new housing thus excluding the lower income strata who are not able to get access to newly built units.

Policies and institutional arrangements -- During the early years of the transition, it is apparent that many policies concerning specific aspects of housing have changed, often dramatically from those which together constituted the Eastern European housing model. The role of the state in production, pricing, allocation, and operation of housing has diminished throughout the region, although in each of these areas the pace and nature of changes have differed throughout the sub-regions and the countries. Changes regarding private property rights have perhaps been the most dramatic of all among the different elements of housing policy. Policies of restitution of property to former owners or their descendants, privatization of state rental housing; permission to own, build, rent and freely exchange private housing have all been notable features of reform in the policy framework. The initial steps have been carried out but less success has been achieved with the creation of mechanisms to secure the legal basis of these changes such as the improvement of registration systems for land and buildings, enactment of condominium laws, and the creation of more competitive arrangements for building maintenance of housing that remains under state control. These reforms, partly enacted, partly under preparation, represent an essential set of changes necessary for the housing sector to function efficiently, as an essential element of a market-oriented economy.

Next in importance has been the withdrawal of the state from the production of housing, and its replacement, although at a considerably lower level of output, by a competitive private construction sector. As in the case of reforms in property rights, the pace of these changes has been highly variable within the region, though has, in general, been in the same direction. In some countries, however, the impact of these reforms on the structure of the construction industry has been dramatic, leading to the collapse of prefabricated building industry, with small firms (of fewer than 200 workers), which in 1990 had accounted for less than one percent of output now accounting for more than half. As in the case of changes made concerning property rights these changes represent a structural change necessary to the creation of an efficient market-oriented housing sector.

Aside from these major changes on, respectively, the demand-side and supply-side of the market, policy and institutional changes in other areas have been both less thorough and more idiosyncratic within the region. For example, among the elements of comprehensive housing policies which must be addressed within the region are (1) housing finance, (2) subsidies and safety nets, (3) residential infrastructure (maintenance and new construction), (4) regulations for building and land use, and (5) the overall institutional structure for the housing sector as a whole. Changes in these areas of policy have been highly variable from place to place, if there have indeed been changes. Moreover, such changes as have occurred often give the appearance of having been rather ad hoc in nature, either a reaction to a perceived crisis or even, inappropriate advice from Western institutions. At the same time it is clear that to achieve real changes in these areas of policy is in fact more costly and brings less in the way of political and financial gain for the state than the changes already carried out in the property rights system and in the construction industry (these "first wave" changes did not need state investments yet still satisfied large numbers of new purchasers and provided opportunities for thousands of new small entrepreneurs).

For the housing sector to play the important role in both the economic and social affairs of the countries of the region, policies, regulations, and institutional arrangements in these latter areas must be given the same attention as property rights reform and reorganization of the building industry, and reforms should be undertaken as part of coordinated strategies for the housing sector as a whole. So far in the reform process, this has not occurred. For it to happen requires an understanding of some of the reasons for the structure of the reforms that have occurred so far, an understanding of the risks and opportunities for reform during the next phases of the reform, and a well-defined set of both objectives and strategies for ensuring that a well-functioning, productive, and equitable housing sector is created throughout the region.

1. A MID-TRANSITION EVALUATION

(a) The two main phases of transition

The transition from the centrally controlled and planned housing system towards a market-oriented housing system can be divided into two phases. The main goal in the first phase -- which is in most transitional countries finished by now -- was to dissolve the key elements of the previous system: to decrease state control, to strengthen individual property rights, to decrease state subsidies. Based not only on our own analysis but drawing on the work of others who have recently examined the Eastern European housing sector, such as Struyk (1996) and Renaud (1995), we are in agreement that the sector has acted, during this first phase of transition, primarily as a "shock absorber" rather than as an "agency of change". By this it was meant that the sector was in effect set free to respond to the forces of economic restructuring, with few government led initiatives to support levels of production

and investment, with massive drops in subsidies for housing and with little in the way of coordinated planning to expand or even maintain the sector's role in the economy, but with regulations limiting the direct effects of price increases on the population.

In contrast to some other observers, however, who have characterized the recent "shock absorbing" performance of the Eastern European housing sector in apocalyptic terms, we find the recent performance to be neither surprising nor necessarily inappropriate in a time of broad economic and social restructuring. The comparative adequacy of the Eastern European housing stock, in an aggregate sense, is strongly suggested by comparisons to countries with comparable resources (ranging from Jordan and Thailand at the lower end of the income comparators to Greece and Korea at the upper end) and even to Western Europe. At the same time demand pressure on the markets of Eastern Europe is remarkably low -- a result of falling incomes, low and falling rates of household formation, and patterns of both internal and external migration that together constitute a situation of rapidly falling effective demand for housing. Thus the ability to have used the sector as a shock absorber -- with low risk that social and economic liberalization would overwhelm the ability of the housing system to deliver more or less what effective demand called for -- was considerable. Moreover, it was evident that politicians saw in the sector a near-perfect vehicle for easing the pain of economic restructuring by privatizing the state rental housing stock at basically giveaway prices. A further aspect of the shock absorbing character of the sector was that rather than increasing rents on state housing toward covering operating costs, utility costs were adjusted instead -- a far easier political choice given the amount of external pressure applied to governments to bring energy prices throughout the economy toward world prices.

This first phase of the transition for the housing sector can therefore be seen as reactive, driven to a considerable degree by national political and economic priorities and programs such as the need for increased fiscal discipline and reduction of subsidies, state withdrawal from production, distribution, and pricing decisions, privatization of enterprises as well as housing, and price reform to bring the prices of goods and services with significant tradeable inputs (e.g. energy prices) into line with world prices. The restructuring in the other sectors of the economy had clear priorities and in the housing sector itself mainly those, less or not at all painful, reforms were carried out which could be considered as a "positive sum game", i.e. there were more winners and they were more clearly identifiable than the losers²⁷.

Even so, neither the policies nor the outcomes in the sector should be characterized as a clear retreat. Indeed, many of the "reactive" reforms of the first phase represent important components of a necessary structural adjustment of the sector which has laid a foundation for a broader role of the sector in subsequent phases of the transition. For example, as noted above, the extent of privatization throughout the region has been considerable, putting far more housing in private hands and opening up the possibility that many more households will be able either to improve their residences, to sell them, to rent them out, or to use them as collateral for borrowing. The reduction in subsidies within the sector has been an important part of the overall reduction necessary to stem inflationary pressures and gave the right signals to the population and to the institutions to start re-adjustment of consumption and organizational-functional patterns. The restructuring of the building industry toward a private and highly competitive structure opens the possibility that a resurgence of housing demand will be straightforwardly accommodated by suppliers of housing. Throughout the region, there are signs that these and other reforms are

²⁷ A good example is give away privatization of public rental housing, where the winners were the sitting tenants who got huge subsidies with the purchase on extremely low sales price while the losers were the future generations who lost the access to state housing.

beginning to show up in reduced housing prices relative to incomes, higher residential mobility rates, higher vacancy rates and greater choice of housing, and the availability of more housing of greater variety (especially at the higher end of the housing quality spectrum). Evidence of the "move to market" of the sector is thus widespread. There are, of course, also growing problems, connected to the inadequacy of the institutional structure, to the high utility prices, and the low efficiency of the social safety measures.

(a) Priority problem areas in the second phase of transition

Having achieved far greater macroeconomic stability and restructuring of the housing system (especially having privatization) a new phase of transition has begun. The systematic overview of the most important indicators of the present housing situation and of the restructuring during the last 4-5 years gives a sound basis to prepare a list of problems which have to be addressed in the coming years. Not only are some reforms of the first phase unfinished, there are other necessary reforms that must now be undertaken if the housing sector is to further improve housing conditions and contribute toward attainment of broader economic and social objectives.

The restructuring of the tenure system is incomplete. In some countries the restitution of property to private owners continues to be hampered by administrative delays including those associated with unresolved policies to address the needs of sitting tenants, particularly those with low incomes or other needs. Apart from these problems, restitution is more or less completed in the region. Privatization, however, is as yet unfinished, having been accomplished relatively easily in smaller cities but lagging in larger cities. Reasons for stalled privatization in larger cities needs to be determined and measures to accelerate the process established. At the same time, however, it is apparent that the degree to which privatization has been brought about in Eastern Europe has created some of the world's leading examples of "property owning democracies". However, the institutions, rules, regulations, and administrative procedures necessary to convert the nominal reality of ownership into "functional ownership" are still to be developed. For example, privatization of multi-family buildings has sometimes been done in the absence of functioning condominium ownership laws or condominium associations -- clouding issues of owners rights and responsibilities and diminishing the "value" of ownership rights. In many cases, mixed occupancy of buildings by state rental tenants and newly privatized owners obliges all building occupants to continue having maintenance done by state-owned and operated enterprises whose resources are scarce and whose efficiency may be doubted. On the other hand, in cities/countries which still have relatively high shares of non-private housing forms (public rental, cooperative, enterprise-owned, etc.) other models than privatization into individual ownership should also be taken into account with the final aim to ensure the more effective functioning of the housing sector. Western European examples suggest that semi-public housing associations, non-profit housing cooperatives, private rentals with institutional landlords (insurance companies, pension funds, etc.) can also be effective forms of housing.

Distorted prices and affordability problems Prices are still highly distorted -- in one instance (residential rents) because of continuing state intervention, in another (sales prices of housing) because the market is signalling through high housing prices relative to incomes that considerable disequilibrium exists in the market. As long as both rents and prices are far from the values they conventionally assume in market economies, the stock will be misallocated and incentives for voluntary moves and re-sorting of the housing stock will be lacking, reducing the value of the stock to its occupants and causing distortions which will be propagated throughout the economy (with consumers buying consumer durables rather than housing, spending rather than saving, with low labor mobility, low investment in housing and linked sectors, etc.). Analysis of rent levels in comparator countries has shown that, notwithstanding the degree to which upward revisions in energy/utility prices have preempted possibilities of

upward revisions in rents in state rental housing in some transitional countries, rents relative to incomes including utility costs are still considerably lower than in comparator countries and rent levels continue to be inadequate to cover necessary costs of operations and maintenance. Impediments perceived to general rent increases based on fears that low-income tenants would be unfairly impacted have rarely been tackled head-on by attempting to define rigorous criteria of housing or general need as part of a broad social safety net, or to create means tested and targeted demand- or supply-side subsidies focused on the appropriate target group.

Housing quality and quantity at the beginning of the transition were relatively high, especially in relation to housing in countries with comparable incomes. Contrary to the common beliefs, in most of the countries there is no evidence of substantial housing shortage on a national level (except for, possibly Poland and the Baltic countries). During the years of subsidy withdrawal it became clear, however, that there is a growing demand pressure on the urban housing markets, not mainly because of new household formation but because of the concentration of the remaining jobs in cities and the concentration of unemployment in rural areas. Even if this is not effective demand (the majority of households who want to move to cities are unable to pay the high housing prices there) there are also high costs -- long-term, structural unemployment -- connected to the alternative not to tackle this problem at all. Another problem area concerns deferred maintenance. Without policies to increase rents to cover at least normal maintenance and to introduce subsidies to create incentives to solve the problem of deferred maintenance, and to bring about more efficient maintenance of housing that remains under the control of the state, costly, yet avoidable, repairs may become necessary. In addition, in some countries, particularly the lower income countries of Southern Europe, basic service levels -- water, sanitation, central heating -- are quite low, and should, subject to more detailed analysis, be improved.

Housing production and investment is declining. This tendency, while dramatic, is not unexpected and can be considered as a "normal" consequence of the collapse of the previous state-subsidized monopolistic "housing production chains" (and in fact in countries where the decline in new construction has been smaller, elements of this monopolistic system still exist). Furthermore, the rapid decline in output is not, indeed, inconsistent with declines experienced in market economies during periods of economic recession and adjustment. In market economies, confronted with similar declines, governments have on occasion stimulated the housing sector by so-called "pump-priming" activities, subsidizing housing production to spur economic growth in housing and related sectors of the economy. The success of such activities is, in general, debatable. In the current context of broad economic restructuring occurring in Eastern Europe, the practical effect of pump-priming would be to offset both ongoing attempts at fiscal discipline (because subsidies would be required) and to frustrate reallocation of investment toward those sectors of the economy that have so far evidenced signs of greater pent-up demand than has been shown in the housing sector; e.g. services, trade, and telecommunications. Thus policies to arbitrarily increase housing production in the near term should be viewed with considerable skepticism.

Housing finance reforms are essential to the success of the economic transition, but there is a legitimate question of timing regarding reforms in the system of housing finance. The benefits of a well-functioning housing finance system are evident in all market-oriented economies but, as has become evident in many such economies within the past decade, financial liberalization resulting in rapid increases in mortgage lending volumes can lead to rapid and unsustainable housing price increases unless housing supply regimes are capable of responding quickly to increases in demand. Thus while many of the early reforms of the transition toward decoupling finance and subsidies, creating new mortgage instruments which can operate in inflationary environments, and creating a more competitive banking environment deserve to be encouraged, the timing and extent of reforms must be carefully

monitored. In addition, given the need to facilitate reallocation of the existing stock of housing, tendencies to tie limited housing finance to the purchase of newly built housing should be strictly avoided; financing of purchase and modification of existing housing appears likely to have at least as great a social and economic benefit as the support of new housing construction in the near term.

Subsidies to housing, which have fallen in response to fiscal realities within the region, are probably unsustainable at higher levels than the level they have now obtained. Now the task is to continue to reduce them, whenever possible, and to change drastically their structure and targeting. Recent reductions in subsidies have mainly affected capital subsidies, with subsidies for maintenance and operations of housing increasing in relative if not absolute terms. Yet while operating subsidies are still prominent, they appear to be inadequate to maintain adequately much of the stock that remains the responsibility of the government. Subsidy reduction should take the form of seeking improvements in the operating efficiency of public housing stocks, improving the efficiency of maintenance through the letting of competitive contracts for building maintenance, raising rents in public housing, but offsetting rent increases with targeted housing allowances. The introduction of means tested housing allowances for tenants (and, under strict control, also for low income owners, concerning utility expenses) is one of the key elements of a well-functioning social safety net, still missing in most of the countries in the region.

Institutional discrepancies are mainly to be found in those areas of the housing system which were particularly hit by the quick restructuring processes in the first phase of transition. In many countries privatization and restitution created hundreds of thousands of new owner occupied and private rental units without the establishment of the proper institutional and regulative framework for their functioning (missing property registration systems, condominium laws, taxation systems, tenant-protection methods, means tested allowance systems, etc.). The other form of institutional discrepancies is the “survival” of many of those institutions which were created according to the logic of the socialist housing model (monopolistic public maintenance companies, huge housing factories, publicly controlled housing cooperatives, etc.). Of course, the creation of new institutions and the dissolving (or restructuring) of the old ones is a difficult, politically sensitive task. There are contradictory examples so far to which extent is it possible to change the “behaviour” of the old institutions and what are the pros and cons of establishing totally new institutions.

1. PRINCIPLES AND PRIORITIES FOR THE SECOND PHASE OF TRANSITION

(a) Tasks for the second phase of transition

The future of the housing system in the transitional countries can not be separated from the development of the economy (stabilization of macroeconomic indices, restructuring of the banking system, etc.) and from the political circumstances (aims related to internal stability, the joining to the EU, etc.). The situation in the individual countries is different in these regards, in some of them the basic transformation processes in the macroeconomy and in the housing arena are not completed yet. In these countries the main goal in the near future should be to finish the first phase of transition (which in housing is mainly “reactive” on political and economic challenges). Most countries of the East-Central European region, however, have already arrived at a more or less stable situation regarding the macroeconomy and the structure of the housing sector. Now the task is to fulfill the second phase of transition, which should be a more “pro-active” phase, in which direct political influences and economic pressures are smaller, and hence the problems of the housing sector themselves can get more attention in shaping housing

policy. In this second phase the main aim is to move in a consistent way toward a market-type housing system, in which the housing sector is a “normal” part of the economic system, which does not require too many budgetary resources and operates according to the logic of the regulated market economy. During the second phase of transition one of the important aims is to reduce the subsidy level, to eliminate most of those subsidies which gave “bad signals” to the institutions and households, distorting market performance from many desirable market outcomes -- greater choice and mobility, lower prices, better housing quality, etc. After the general subsidy reduction only a system of special “transitory subsidies” should remain which, however, contains more highly targetted subsidies than before. Compared to the first phase, in the second phase of transition conflicts of the restructuring are sharper because there are fewer positive sum games: a number of reform ideas will either be perceived as, or will in reality create situations benefitting one group at the expense of another.

The key problems of the second phase of transition are to solve the institutional discrepancies, to build up a minimal social safety net and handle the housing market disequilibria. These main problem areas can be described as follows:

1. to handle the problems of institutional discrepancies (the fact that the politically motivated restructuring processes were in most cases so quick that they could hardly be followed by the establishment of proper institutional and regulative framework) through the restructuring of the institutional system: a) to ensure that the major stakeholders of the housing system (the financiers, the developers and builders, the maintenance organizations) are working efficiently, similar to the market actors of the economy, b) to create new institutions necessary to the proper functioning of the market system
2. to address the problem of housing affordability (the problem that more and more tenants and owners are unable to pay the increased housing expenses) through the establishment of a social safety net to ensure a minimal protection for those strata of society which are unable to reach a normative minimum of housing consumption within their own means; with the parallel introduction of more effective enforcement methods to handle problems caused by families who can but are unwilling to pay their expenses
3. to address the multi-faceted issue of housing market disequilibrium (especially those parts which are the most disruptive for the other parts of the economy) so that the reforms in the sector can not only benefit housing consumers but also have a positive effect on the social and economic goals associated with the broader adjustment, through dealing with the still great mismatches between households' preferences and ability to pay for housing and what they are actually occupying (quantitative, qualitative, locational, and tenure mismatches)

These and other reforms which remain to be done have the potential to change policy and institutional development within the housing sector from reactive to pro-active, with major benefits accruing both within and beyond the housing sector because of reductions in current disequilibria which exist within the sector. As a clear sign of preparations of many of the countries of the region for this second phase of the transition, out of 8 countries of the CETE and SETE subregions 6 are currently discussing new housing concept proposals. This is the second “wave” of housing policy reforms, following the big changes introduced around 1990-1991.

When these disequilibria and discrepancies have been reduced and when the macroeconomic reforms currently underway have established the basis for a resumption of economic growth in the countries of the region, the transition in the housing sector will be finished and there will be a new role for housing -- one played by well-

functioning housing sectors everywhere -- being a major sector, integrated with the rest of the economy through real, fiscal, and financial circuits, and have these linkages ensuring both that the performance of the housing sector is responsive to performance of the macroeconomy and that macroeconomic performance depends on the functioning of the housing sector.

The agenda for reform in the second phase is thus considerable, as are the stakes of properly structured reform. While the review provided above presents a number of observations concerning the objectives and mechanisms of reform, it falls short of a comprehensive plan. The next section presents a far more explicit discussion of the objectives of housing policy, the elements of housing policy necessary to achieve them, and a sense of priorities for reform.

(a) Principles and priorities for the coming decades

From the three key problem areas mentioned (reducing institutional discrepancies, building a minimal social safety net, and addressing housing market disequilibria) the first two can be discussed on a general level for the whole region, while the third needs more specific, sub-regional or even country-level discussion. The discussion of the first two problem areas can be based on the notion of “Enabling housing strategies”²⁸, which require that governments have in mind both a positive view of how the housing sector actually works in a given context, and, as well, normative notions of how it could work better.

The most important aspect of this positive view of the sector is recognizing that the housing sector is an important economic sector, the actions and performance of which are fundamentally governed by the interaction of supply and demand, each of which may be influenced by a variety of policies, regulations, and institutional arrangements established by either central or local governments. To reform government policies and institutional structures, two perceptions must be changed: first, the housing agenda should not be seen as one of shelter *per se* or only as an element of welfare policy, but rather as one of managing the housing sector as a whole, while still contributing to the provision of a safety net; and second, the housing sector must be seen as an important and productive sector, where policies have serious repercussions for overall economic performance, and not, as is a common view, as a drain on productive resources.

Aside from these aspects of the positive role of the sector in the economy, it is necessary to develop a normative view -- a notion of standards of performance expected of a well-functioning housing sector. To develop such a normative view, one must look at how the sector performs from a number of different perspectives. The five most important perspectives are those of housing consumers, housing producers, housing finance institutions, local governments, and central governments.²⁹

²⁸ United Nation: Global Shelter Strategy for the Year 2000
World Bank: Housing: Enabling Markets to Work

²⁹ Other actors may be important in different institutional settings. Among the most important of those are non-government and community-based organizations, state-owned enterprises and firms involved in real-estate brokerage. A more detailed breakdown will also need to take into account the different perspectives of specific government agencies, such as the land department or the fire department, and various agents in formal and informal housing delivery system.

Enabling strategies in the Eastern European context Housing policies, and indeed the broader social and economic policies, of Eastern European countries have been based on the perception that housing is a welfare sector rather than a productive sector of the economy. Decisions about the type of housing to be produced, who produces it, its location, its price, and its allocation are or have been heavily influenced by the state. This has, in general, created not only pervasive housing problems, with serious costs in human terms, but also enormous, broader economic costs. Housing policy failures touch practically every aspect of the economic life of such countries, adversely affecting labor mobility, wages, inflation, savings rates, and industrial productivity. Consequently, reform of the sector must be seen as a fundamental component of broader economic reform, and not simply as a way of providing more housing. The economic potential of the housing sector in such countries is considerable, but to realize it major changes are required in practically every aspect of housing policy and its associated institutional framework. The two major directions for change are to restructure the financing of the sector and to reorganize the housing delivery system. Among the specific priorities are the following.³⁰ On the demand side:

³⁰ For a more extended treatment of these priorities see Renaud (1991).

(i) Property rights reforms should continue to encourage an efficient and equitable mixture between private and public ownership, encouraging clear titling, registration and efficient functioning of all tenure forms (ii) Rent levels on existing state-owned housing should be raised to levels that at least permit the recovery of operating costs and, eventually, to a level of full economic rent. (iii) Subsidy systems should be revised to target benefits on the neediest households, with special consideration given to systems based on one-time capital grants and housing allowances, along with the elimination of credit subsidies and supply-side subsidies (e.g., subsidized land or building materials). (iv) Financial institutions should increase resource mobilization and ensure financial soundness; this will involve *inter alia* offering depositors positive real interest rates and providing mortgage instruments that are appropriately indexed to balance the interests of both lenders and borrowers (such as the dual-rate indexed mortgage); special circuits for housing credit should be avoided in favor of universal banking with some institutions relatively more specialized in housing lending. On the supply side: (i) The supply of housing available for private exchange should become large enough and, if still necessary, be increased by selective sales of the public stock. (ii) Government participation in the building materials and residential construction industries should be eliminated; efforts should continue to be undertaken to increase competition. (iii) Land use and building regulations should be streamlined and made more dependent upon economic considerations, such as the population's ability to pay and the costs of alternative standards. In addition to these specific reforms, major institutional changes are required. During the period of transition to market-oriented housing delivery systems, government entities responsible for managing the transition must have a broad enough mandate to cover all important aspects of reform, and those reforms must be carefully coordinated with broader economic and social reforms to ensure both that the housing sector is able to contribute to economic and social goals and that it benefits from reforms outside the sector.

More specific actions in each of the areas noted above are contained in Table 12, which lists the "Do's and Don'ts" associated with putting in place enabling strategies in Eastern Europe. While such a list is admittedly simplistic, and its applicability in particular places must of course be examined in the context of local economic, political, and cultural conditions, it is far from arbitrary. It is, in fact, based on the lessons of experience, research into what kinds of policies work and which don't in creating well-functioning market-based housing sectors, and, indeed, upon a fair measure of common sense.

Table 12 The Do's, Don'ts and temporarily acceptable measures in the special Enabling Housing Markets to Work in the East Central European transitional economies

INSTRUMENTS	DO	CONSIDER ONLY DURING TRANSITIONAL PERIOD	DON'T
Developing Property Rights	<ul style="list-style-type: none"> _ Establish efficient real estate registration _ Redefine the rights of tenants and landlords _ Establish proper legal regulation for multi-family private ownership (condominiums) _ Establish health and safety regulation and enforcement mechanisms for private buildings _ Enforce payments of rents and utility fees _ Achieve efficient mixture between private and public housing _ Establish property taxation 		<ul style="list-style-type: none"> xDiscourage land and real estate transactions xOvertax transactions xKeep price information (on land, real estate transactions, rent, etc.) secret xEngage in evictions without adequate procedural safeguard and safety net provisions
Developing Mortgage Finance	<ul style="list-style-type: none"> _ Create competition among lenders _ Lend at positive/market rates _ Create support systems for mortgage finance (eg title insurance) _ Enforce foreclosure laws _ Ensure prudential regulation _ Introduce inflation adjusted loan instruments _ Make credit risk information public _ Create conditions for secondary market institutions 	<ul style="list-style-type: none"> xCreating special financial circuits such as contractual saving schemes 	<ul style="list-style-type: none"> xDiscriminate against rental housing investment xRestrict information on lenders and borrowers xCrowd out housing lending by other aims (e.g. financing budget deficit) xAllow interest-rate subsidies except for savings xAllow high default rates

Rationalizing Subsidies and Creating a Social Safety Net	<ul style="list-style-type: none"> _ Make subsidies transparent _ Target subsidies to the poor _ Subsidize people, not houses and institutions _ Subject subsidies to review _ Create shelter system for homeless people _ Support innovative institutional changes with subsidies 	<ul style="list-style-type: none"> xBuild publicly sponsored low income housing xUse rent control as a subsidy xUse construction period subsidies for provision of new housing 	<ul style="list-style-type: none"> xAllow for hidden subsidies xLet subsidies distort household behaviour xUse tax allowance type subsidies
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INSTRUMENTS	DO	CONSIDER ONLY DURING TRANSITIONAL PERIOD	DON'T
Providing Infrastructure	<ul style="list-style-type: none"> _ Coordinate land development _ Emphasize cost recovery _ Base provision on demand _ Improve slum infrastructure _ Establish transparent and democratic procedures for central-local transfers 		<ul style="list-style-type: none"> xAllow bias against infrastructure investments
Regulating Land & Housing Development	<ul style="list-style-type: none"> _ Reduce regulatory complexity _ Assess costs of regulation _ Remove price distortions _ Establish land use regulations to make efficient use of existing infrastructure 	<ul style="list-style-type: none"> xUse public land to bridge temporary affordability problems 	<ul style="list-style-type: none"> xPermit land uses eg low rise or single family housing without regard for external social and economic costs xImpose unaffordable standards xMaintain unenforceable rules xDesign project without link to regulatory and institutional reform xAllow unrestricted conversion of residential units into other uses
Organizing the Building Industry and Housing Maintenance	<ul style="list-style-type: none"> _ Eliminate monopoly practices _ Encourage small-firm entry _ Reduce import controls _ Enforce tax compliance involving construction industry taxes 	<ul style="list-style-type: none"> xCreate incentives to solve the problem of deferred maintenance of multi-family buildings 	<ul style="list-style-type: none"> xAllow long permit delays xInstitute regulations inhibiting competition xContinue public monopolies
Developing a Policy & Institutional Framework	<ul style="list-style-type: none"> _ Balance public/private sector roles _ Create a forum for coordinating housing sector reforms _ Develop enabling strategies _ Support the active functioning of local governments _ Train central and local government housing officials _ Monitor sector performance 		<ul style="list-style-type: none"> xPermit special interest group programs to be implemented without thorough public review processes xRetain financially unsustainable institutions

x refers to measures which are not or only temporarily suggested

1 The problem of housing market disequilibria

As a consequence of the period of the socialist housing model and also of the first phase of transition a series of housing market disequilibria have been developed which can easily be documented with the help of the indicators. These disequilibria create significant dissatisfactions and inefficiencies and their existence represents a continuing and significant tax on society which is paid not only in the form of reduced satisfaction with housing but through economic distortions in behavior which are manifest throughout the economy.

The main types of disequilibria are as follows:

- quantitative mismatches with small families living in large dwellings and vice versa
- qualitative mismatches with better off families living in poor quality dwellings and poor families living in housing that they can barely afford to heat, let alone afford to live in
- too many families living in the countryside when they have the wish and means to live in the city, other families wishing to live either farther away from or closer to places of work, and still others wishing to live in different cities
- tenure mismatches with rental households who would prefer to own, or the reverse.

Applying again the format used to get an overview about the housing situation before the transition and at the middle of it, the most important disequilibria, based on the analysis of sub-regional indicator values, are as follows:

Housing tenure and property rights As a result of privatization, in some countries (in Hungary, Slovenia, Albania, Bulgaria, Croatia, Romania, Lithuania) a housing system developed which is dominated by the high share of owner occupied housing, with a very small public rental sector and still insignificant private rental sector. The proportion of low income families is much higher in each of these countries than the share of non-private housing forms. Thus it is clear that in the course of the major restructuring of the last 4-5 years many poor families became owners without having the necessary financial means to contribute to the proper maintenance and renovation of the mostly run-down multi-family buildings. Furthermore, there are practically no vacancies in the small remaining public rental sector which could give a chance for “starter” families to enter the housing market (to get a first, relatively cheap rental accommodation).

As a result of the unique, very quick privatization process a huge private multi-family housing sector has been created within a very short time. In some of the countries (at least in Albania, Romania, Lithuania) there was no possibility to establish the necessary legal, organizational, financial framework for the privatized buildings to function properly (there are problems with title registration, with all the decisions which would need cooperation among residents, with the financing of repairs and renovations, etc.),

Housing prices and affordability The prices of energy and other utilities have been sharply increased in most of the transitional countries, whereas the incomes of the majority of the population are stagnating or decreasing in real terms. As a result, in the transitional economies utility expenses are 5-8 times higher than public rent expenditures (whereas in Western countries these two items are fairly similar). Consequently, the high level of utility payments makes it difficult to increase public rents to a ratio and level similar to Western pattern, because the majority of households would not be able to pay 30-40-50 per cent of their income for housing expenditures. There is a similar problem in the case of homeowner families in run-down multi-family buildings (condominiums) who, paying high utility fees, are unable to put aside enough money for maintenance, and are even less able to save for neglected and future renovations.

This is not however, to suggest that it was a failure to increase utility prices much faster than rents. From an economic point of view utility prices are far more important to get right than is the rent of a good which is not in short supply. Furthermore, it is easier in the short run to modify consumption behaviour with respect to energy usage than to modify housing consumption. Even so, there are serious consequences of this sequencing of price rationalization.

First, the inability to increase rents and savings for future renovation leads to a situation where major renewal in the public rental sector will be postponed and the deterioration of the multi-family housing stock continues. Another consequence of the increasing utility prices and decreasing-stagnating household incomes, is that arrears are growing. In most countries both the means tested housing allowance system (as the most important part of a social safety net) and the legal enforcement systems (eviction, foreclosure) are missing or not functioning properly. In this situation the public utility companies are becoming important actors with the right to decide whether to disconnect non-paying families or not. There is a danger that in the future it will not be the real economic situation of the residents which will be decisive regarding their willingness to pay but the status and “behaviour” of the utility companies (depending very much on whether they are considered as part of enterprise privatization or whether they remain in state ownership for a longer period).

Housing quality and quantity The analysis of quantitative and density indicators highlighted the difference in the housing situation of the three subregions:

- In countries where essentially there is a balance between the number of households and housing units, the population lives very overcrowded in small dwelling units (SETE region). Here the main task would be to create incentives for increasing the number of more spacious dwelling units, either through new construction or through enlargement of existing units, if the latter is possible at all³¹.
- In the other two sub-regions there is a deficit in the number of units but density indicators are relatively better (even if far from Western European figures). The deficit is concentrated to three countries, Poland, Latvia, Lithuania, in the case of which the quantitative expansion of the number of flats should probably be one of the priorities.
- In the rest of the countries of the CETE and Baltic regions neither the number of dwellings, nor the density in general are big problems. Here the main quantitative-type problems (the fact that a considerable part of population is overcrowded while many families are living under very advantageous density conditions) are the consequence of bad matching between households and dwelling units in terms of size. The main priority in these countries (the Czech republic, Hungary, Slovakia, Slovenia, Estonia) should be the elimination of the distortions in the price structure: rents, running expenses, maintenance charges, utility payments should express the real costs and families should only be subsidized if their real income position would not make it possible for them to achieve a normatively defined housing consumption level.

³¹ In the course of renovation of units in prefabricated housing estates the joining of neighboring flats could be included as one of the aims of renovation.

In the capital cities of the transitional countries the number of flats per 1000 population is higher than the national average, but the comparison of the number of the flats and households shows a deficit (whereas on national level there is approximately balance). This refers to special problems to be dealt with in the capital cities: households in the capital cities are significantly smaller in size than on national average, thus the relatively great number of housing units in the capital cities is not enough to counterbalance the great demand by smaller-size households (in the CETE capitals this is in connection with the high and growing share of one person households of elderly people). This example shows the necessity to collect local information besides national indicators data.

In the CETE region the public and private infrastructure supply of the existing housing stock is better than that in the SETE region. In the Baltic States the public infrastructure supply is exceptionally high in connection with the fact that the share of units built on new housing estates is the highest here among the three sub-regions. This fact, however, raises different types of qualitative problems.

A result of the rapid privatization process is that deferred maintenance is becoming a growing concern in the big cities of the transitional countries. Even if this is one of the most difficult problems to quantify, it is clear that if deferred maintenance problems increase, this may lead to slum-creation or even ghettoization of some parts of the cities, where the costs of future physical and social upgrading will become extremely high (in fact, much higher than the costs of timely renovations). Local governments have a special responsibility to create the legal framework for condominiums to operate, to create conditions for the financial system to undertake renovation loans, and to create incentives for condominiums to start the necessary renovations.

Production and investment In many of the transitional countries there are disequilibria between the reality of restructuring the structure of developers and the construction industry and the need for a new institutional structure. The highly inefficient "housing production chains" (the interest-coalition of state construction, development, financing, and planning organizations) have collapsed -- a logical consequence of the inability of the state to maintain the artificially high level of subsidies and the release of all elements of the chain from direct state control. As a consequence, the role of public developers/construction firms has been drastically decreased and so most probably will the role of cooperative construction. There are, however, significant differences in the degree to which this restructuring process occurred:

- in some countries all subsidies tied to special housing forms (public, cooperative, enterprise owned, etc.) have been eliminated and remaining state subsidies are allocated to support private and market forms of new construction; the responsibility to decide whether to initiate (limited) public construction programs has been delegated to local governments, which are in the position to decide how to use land reserves they still own. This is the case in Hungary, Slovenia and Croatia. In this model large state construction enterprises have been dissolved or privatized
- in some countries the direct involvement of the public sector in new construction has decreased substantially but the public sector could - at least temporarily - maintain its influence through the semi-public cooperative housing sector (Czech Republic, Poland, Slovakia, Lithuania). In this model some of the big state owned construction enterprises have managed to retain their stability even if their legal status has changed by going from the state sector over to the cooperative or private sector
- in some countries the public sector tries to maintain or only to slowly decrease its direct involvement in new constructions, mainly through the state, and sometimes through the semi-public cooperative housing sector (Bulgaria, Estonia, where the big state owned construction enterprises remain stable and even preserve their legal status) or through a special government agency (Albania, where the formerly state owned companies became private).

The partial or total dissolving of monopolistic state construction enterprises and the lifting of control over land and real estate property ownership has created a good basis for new models in the housing construction. The very low level of new construction shows, however, that the development of new models will take a long time.

There will be different possibilities to handle housing market disequilibria in the different possible outcomes of the restructuring of construction industry. One possible outcome is that the non-market or quasi-market private forms of new construction (self-help) will become dominant. The other option is that new market type construction forms will increase their share and later dominate the market. Finally, in some countries the state will probably keep some parts of the new housing market under direct or indirect control. The first option can be called the “3rd World option”, the second the “free market option” and the third the option of “state controlled new development”. These are not mutually exclusive options, the important point is which type of new development will become dominant.

In many countries of the region the restructuring of land ownership is still in progress, and the establishment of the basic administrative institutions regulating and monitoring the functioning of the land market has not been finished yet. As a consequence, it is difficult to estimate the real contribution of land supply problems to the high level of new housing prices. It will certainly take years to clarify basic legal and administrative problems (Baltic countries), to establish reliable inventories and regulations on the use of land in public ownership (Bulgaria, Romania), settling ownership disputes in some sub-sectors of the housing system (cooperatives in Poland, the Czech Republic, Slovakia).

1 Setting up priorities among housing market disequilibria and the problem of measuring success

There are aspects of the transition where important political choices have to be made. Problem areas must be identified which are considered to be the most serious and “deserve” public intervention and subsidies. Political, as well as social and economic considerations will determine, how much weight the different types of housing market disequilibria get, e.g. whether the very low housing production level or problems of deferred maintenance, affordability, etc. are to be more heavily weighted. It is never easy to prioritize according to rational social and economic arguments such different problem areas as homelessness/shortage, the lack of utilities, overcrowding, affordability problems, etc. Well established indicator values can help in getting a realistic overview about the problem areas, but can not completely replace the process of political prioritization.

In many cases not only are there many choices between priority areas, but there are also alternative methods to approach any given aim. For example, if the aim is to improve the efficiency of the functioning of the housing system, privatization is not the only solution: the public rental sector could alternatively, be made to work more efficiently provided that a number of necessary changes have been carried out, e.g. the rent system rationalized, means tested housing allowances introduced, management privatized, the role of the local government changed (the Szolnok example³² proved this approach in the practice). There can also be differences among countries in that regard, in which choice of tenure composition they wish to achieve housing policy goals: some countries/cities privatize almost everything, while others keep rather substantial public rental and cooperative sectors and try to run these efficiently. Either solution can work, depending on the existence

³² Within the framework of the USAID technical assistance program in Hungary a complex project has been carried out in the city of Szolnok, changing all aspects of local public rental housing policy (Mark-Tosics, 1993)

and functioning of the institutional structures.

These decisions are political and hence success measures should be based to a considerable degree on the efficiency with which the chosen alternatives are managed. Thus it is difficult to measure the “success” of choices between priority areas or between different models of the tenure structure. What is more possible is to measure the efficiency of the selected approach/method to fulfill the chosen aim, and also the efficiency of the use of the given amount of state subsidy.

How can the success of the second phase of transition be measured, judged? In our opinion the success of the transition should neither be judged on the basis of the tenure structure (e.g. the faster privatization the better) nor on the priority setting of housing policy (e.g. the more new construction, the better). Instead of these factors the real functioning of the housing system should be evaluated, concentrating on the three main problem areas of the second phase of transition:

- the institutions should function effectively, all the institutions necessary for and interested in the proper functioning of the housing market should be created, there should be a correspondence between the tenure structure and the institutional structure (e.g. in a housing system with a substantial private sector, the mortgage system, property registration etc. should be in place)
- there should be an effective social safety net function which ensures a minimal level of social protection for the poor on a normative basis without using “too much” in the way of budget subsidies
- the quantity and quality of housing should reach the level of other countries of similar economic development, and housing should not have extraordinary secondary effects, ie it should not be the major impediment of economic restructuring

Thus it is difficult to judge success on the level of national housing policy. Here too sudden, one-sided, and irreversible changes can be harmful. There is no universal model which is obviously better than the others but only a range of potential models, some of which fit better the actual political and economic circumstances, history, etc. of the given country.

Not only are the more general problems of restructuring complex, it is not easy to set up the criteria for successful handling of concrete problems, either. On the basis of our experience with technical assistance programs so far it is possible to raise some hypotheses on success-criteria for concrete (mainly local) projects:

- institutions in and around the housing sector must be ready for change
- there must be a strong political leader (personality) and/or a majority political will on the given level to push for the changes
- there must be an expert consultant around giving technical advices in time, and there must be a “mediator” around to bring the consultant, the local politicians and the given problem together

One of the important lessons to learn is that it is necessary to have all the mentioned factors in place to be able to achieve success. Thus, it is not enough to have the most brilliant idea, there are no chances to carry it out without institutions which are interested in the change and also political will to accept the new system. And similarly, even the brightest politicians achieve only small results if not supported by the institutional structure and good consultants. Because of these many factors required for successful reforms, there are few examples of comprehensive and successful overall reforms.

1 THE ROLE OF THE INTERNATIONAL INSTITUTIONS AND THE NECESSITY TO USE SECTORAL PERFORMANCE INDICATORS

1 The role of international institutions

The role of international institutions (donor agencies) has been important in supporting the transition in Eastern Europe at both the macroeconomic and sectoral level. A continuation and even an expansion of these efforts is called for, particularly since many of the “easy” reforms are over, and both technical and political impediments to further reform are considerable. For the greatest impact to be made by international institutions, their activities must be guided by common principles and they should have an array of different types of assistance encompassing lending, technical assistance, provision of information and tools. Five principles should guide future assistance by international institutions in helping to shape the housing sector within Eastern Europe: (i) they should encourage governments to play an enabling role: to move away from producing, financing, and maintaining housing, and towards improving housing market efficiency and the housing conditions of the poor; (ii) any housing assistance should have a sectoral rather than a single project focus: projects, especially investment projects aimed at improving the housing conditions of a limited number of beneficiaries should be designed and evaluated in terms of their impact on the sector as a whole; (iii) they should seek to assist counterpart institutions which have regulatory roles and to focus any lending for housing on borrowers willing and able to remove market distortions; (iv) they should support innovative models of lending for housing; many aspects of housing project design necessary to undertake an effective enabling strategy in the housing sector require further refinement; and (v) they should seek greater government commitment to improved collection and analysis of housing data to assess housing sector performance and improve the process of policy formulation and implementation. Moreover they should support *policy reform* -- property rights and financial market development, regulatory reform, and a shift from general subsidies to targeted subsidies; *investments* - large-scale trunk infrastructure projects, infrastructure upgrading in slum areas, and, in poorer countries of the region, infrastructure provision in sites-and-services projects; and *institutional reform*. They should support these initiatives through adjustment lending, investment lending, and technical assistance operations. For low-income countries these will often be in the form of slum upgrading and other infrastructure projects. For middle-income countries, where the financial sector may be more robust, these will more often take the form of financial intermediary operations, including associated programs focussing on enhancing systems of property rights -- property registration, cadastral surveys, development of condominium law, etc. In general, policy reform in the housing sector will require a *country-specific approach*, applying the appropriate instruments to the specific conditions, challenges and constraints in each country. Whenever possible, however, regional approaches should be sought, drawing upon the successful experiences of countries within and outside the region. Referring back to the statement about the three key problem areas in the second phase of transition the following suggestion can be formulated for the relationship between the donors and the national recipients of technical assistance. International institutions can formulate their general advice on enabling strategy elements in those problem areas where the technically best solutions are more or less known and should be applied in any circumstances – e.g. in the case of institutional efficiency regulation and social safety net issues. In the third problem area, housing market disequilibria, however, it is necessary to allow political priorities to be formulated on the national level -- e.g. in the selection of the “optimal” tenure structure, or in the priority-setting between shortage/maintenance/affordability problems. Donor agencies should accept the national priorities and formulate their advice within the given framework, looking for the best “technical” solutions for given desirable tenure structure and housing problem priorities.

The experience of the first 4-5 years of transition showed that in many of the countries fairly decentralized housing systems have been developed. With the acceleration of decentralization the importance

of overarching national housing concepts or objectives are decreasing and the importance of the local concepts is increasing. It is possible now that the housing system of bigger cities will significantly differ of the rest of the country, regarding the share of the remaining non-market rental sector and also the housing policy concepts. There are already now examples showing that capital cities may have different priorities in ranking shortage, quality backlog, deferred maintenance, affordability problems, than suggested in the national policy documents. In short: with decentralization, i.e. the emergence of local housing policy formation, donor activities should be more targetted to the local level.

Shifting the focus of donor assistance to a sectoral, locally relevant enabling approach should also be accompanied by a new agenda for housing policy *research and development*, of tools to strengthen the basis for sectoral policy management: the use of national and local sectoral performance indicators, the evaluation of the effects of policy differences on sectoral performance, and the development of operational tools for sectoral analysis and policy design such as regulatory audits, land market assessments, computerized packages for mortgage instrument design, and urban housing survey packages.

1 The necessity to use sectoral performance indicators

In order to successfully address the problems of the second phase of transition it is very important to create and apply a reliable comparative information system on the performance of the housing sector. Therefore it is essential to finalize and institutionalize the regionally relevant indicators system, because

- this will help to place the housing sector performance of the CEE countries into international perspective, within the region and with other regions. Separate country analyses can give an overview about the different aspects of the housing problem, but it is much more difficult to get an accurate picture about the weight of various problems without considering the economic position of the country and other comparative data
- indicators can help to point out problem areas and contradicting housing policy aims. Moreover, the correct use of national and local indicators can help to establish the necessary minimal central regulation of the decentralized local government system and can also help in measuring success in achieving goals of central regulation.
- this will be essential in measuring progress in the most important restructuring processes relevant mainly exclusively to the transitional countries, but which are not reflected in most international housing statistics (housing expenditure to income, privatization of housing, the structure and performance of the construction industry, the level of housing maintenance, etc.)
- the regional housing indicators system, besides maintaining the regionally relevant indicators, can be further developed with the aim of getting a unified system of housing statistics for transition countries which can be integrated with that of the EU countries

There are many examples of the need for special, regionally-relevant indicators. It is clear, for example, that

- the “housing expenditures to income” indicators shows much more than the usual “rent to income” indicator
- the measurement of subsidy associated with the sales process and the indicator of condominium structure (the share of private and public ownership) are very important in addition to data on the volume of privatization
- to be able to survey the specific problems of transition, e.g. the reaction of the population to the increase in housing related prices, it is necessary to develop special indicators which are usually not included into the normal housing statistics: black market in new construction and renovation, the measure of deterioration of buildings, the mobility processes and the amount of arrears.

The Regional Housing Indicators System is far from complete in its present form. There are problems with the level of aggregation, the capital city and the national level are in many cases not enough to describe the variability of indicator values accross the country. There are also some aspects of housing problems where it is very difficult to establish reliable indicators for which the values can be collected relatively simply

- in the transitional countries there is no common definition existing and no comparable information available on the substandard part of the housing stock
- there is a lack of information on the condition of the housing stock, especially on the level of deterioration of the multi-family stock
- it is very difficult to measure the targetting of the subsidies: there is practically no information on the recipients of the different subsidy systems
- no reliable data exist on land prices and real estate market transactions (in some countries these data are even classified as personal information and thus forbidden to collect)

A logical continuation of the work done so far on the regional indicators system would be an agreement between the East - Central European countries to further develop the system. The aim would be to work out useful statistical indicators for some well defined, important and difficult-to-measure areas of housing policy (e.g. cash to new housing price; land price to house price; substandard housing, total housing expenditures to income, condition/deterioration of multi-family housing stock, affordability indicators, targetting of housing subsidies). This program should be based on the results of the indicators program so far but should aim to provide even more concrete results by, for example

- involving statistical experts to assure the inclusion of methods into Censuses
- involving national and local level political discussions to ensure the use of the results.

The continuation of the work on the regional indicators system is in interest of the countries of the East Central European region, but also of Western European countries and other potential donors, in order to get reliable information on the restructuring processes in the housing sector and urban system.

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Table 13 Different measures of the housing situation around 1994 in the three sub-regions of the East Central European region

Indicators	Total transitional economies	CETE countries	SETE countries	Baltic countries
GNP per capita, USD, 1992 ³³	2058	2298	1702	1792
PPP-based per capita GNP, USD in 1993 ³⁴	5020	5676	3796	3503
Factual and projected annual rate of change in GNP, 1992 ³⁵				
1993	- 5.9	- 0.7	- 9.3	-35.1
1994	- 0.1	1.6	-0.2	-13.9
1995	3.3	4.3	2.6	-1.3
1996	4.5	5.3	3.4	2.8
	4.0	4.4	3.4	3.2

³³ Data source: World Development Report, 1994 (subregional averages are weighted country data, weighted by the 1994 population of the countries). Per capita GNP figures differ between Tables 1 and 2 partly because Table 1 contains unweighted averages.

³⁴ OECD, 1996 Purchasing power parities in Eastern Europe (no data for Albania)

³⁵ Source: Gáspár-Czerny, 1995 (no data for Albania)

Factual and projected annual rate of change in CPI, 1992								
1993	168		37		223		1008	
1994	155		30		350		239	
1995	60		25		125		36	
1996	32		22		47		35	
	25		18		39		25	
Average annual growth of urban population ³⁶								
1970-1990	1.70		1.59		1.88		-	
1990-1993	0.53		0.51		0.64		0.16	
Tenure distribution of the housing stock (%))	1990	1994	1990	1994	1990	1994	1990	1994
Public rental	27.0	18.6	28.2	23.1	18.7	7.6	58.7	36.4
Other rental + rental coop	8.5	5.9	9.5	8.2	0.7	0.2	14.0	1.3
Private rental	2.1	3.8	3.1	3.9	1.0	3.0	0.0	6.5
Owner occupied	56.0	64.2	48.5	52.0	78.6	89.1	32.4	54.5
Other housing (owner coop, etc)	6.4	7.5	11.0	12.8	1.0	0.3	4.1	1.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

³⁶ Source: Empirica-MRI, 1996 (no data for Slovakia, Slovenia and Croatia)

Indicators	Total transitional economies		CETE countries		SETE countries		Baltic countries	
Privatization 1990-1994 number of units	3,136,000		709,000		1.930,000		496,000	
% of the 1990 public rental stock	31.1 %		11.8 %		77.3 %		31.7 %	
Restitution 1990-1994 number of units	294,000		120,000		68,000		106,000	
% of the 1990 public rental stock	2.9 %		2.0 %		2.7 %		6.7 %	
Housing expenditures to income in public rental	1990	1994	1990	1994	1990	1994	1990	1994
Rent to income (%)	5.1	1.9	2.4	2.7	10.4 ³⁷	0.5	0.8	1.7
Utilities to income (%)	5.8	11.4	5.0	12.4	8.0	9.2	1.5	13.9
Housing expenditures to income	10.9	13.3	7.4	15.1	18.4	9.7	2.3	15.6
Housing exp. to income in lowest income quintile 1994	33 %		38 %		21 %		51 %	
Average size of newly built flats, sq.m. 1990, 1994	1990	1994	1990	1994	1990	1994	1990	1994
	73	86	80	92	61	72	63	92
Housing investment to GDP (%) 1990, 1994	3.7 %	1.8 %	4.6 %	2.2 %	1.5 %	0.9 %	4.5 %	2.0 %
New housing construction to 1000 population, 1990, 1994	3.6	1.8	3.9	1.9	2.6	1.6	5.4	1.2
Number of households per dwelling units	1.02	1.00	1.04	1.03	0.94	_ ³⁸	1.17	1.08
New housing construction according to type of developer	1980	1994	1980	1994	1980	1994	1980	1994
public sector	55	20	45	12	70	33	72	36
cooperatives	16	20	24	30	0	0	17	21
market sector	0	2	0	3	0	0	0	4
private sector	29	58	31	55	30	67	11	39
total	100	100	100	100	100	100	100	100

³⁷ This very high figure is exceptional: there was a one-time rent increase in Bulgaria and Romania at the end of the 1980s, the effect of which, however, was very soon eliminated by the increasing level of inflation and the absence of further rent increases.

³⁸ There is no reliable data available of the number of households in 1994 in any of the SETE countries.

Weighted country data from the East Central European Regional Housing Indicators Database (Metropolitan Research Institute, 1996).